External Influences on Compensation Systems in Multinational Enterprises: Some Comparisons of Subsidiaries and Companies in Australia and Singapore

by

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Declaration

I declare that this thesis contains no material which has been accepted for a degree or diploma by the University or any other institution, except by way of background information and duly acknowledged in the thesis, and that to the best of my knowledge and belief contains no material previously published or written by another person except where due acknowledgement is made in the text of the thesis.

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Abstract

Accompanying the world-wide growth of multinational national enterprises (MNEs) has been an increasing interest in the broad issues of international human resource management (IHRM) and the management of people in MNEs. The uniqueness of managing human resources in an MNE is the need for the organisation to operate in more than one national context, possibly with three different categories of employees — host country, parent country, and third country nationals. Taking into account the unique elements of the external environment in each country of operation presents particular challenges for the design of human resources policies and practices, including compensation (remuneration) systems.

This thesis focuses on the compensation systems of MNE subsidiaries, and uses the guiding question: **'How does the external environment of an MNE subsidiary influence the design of its compensation system?'** Adopting a case study methodology, the thesis examines the compensation systems of five MNEs (over the period 1992–95) by studying pairs of subsidiaries and companies based in Australia and Singapore. Two of the MNEs were European owned, and three Australian owned. The Summary Profile of Experiential and Algorithmic Compensation Patterns of Gomez-Mejia and Balkin (1992) is applied to each pay system, and the similarities and differences analysed. Possible key external environmental differences and some internal characteristics that might have caused those similarities and differences in compensation design are then suggested for each MNE. In addition, the roles of the corporate and national head offices in the compensation design of their subsidiaries are explored. While not usually included as an external influence on human resource management of MNEs, the MNE head office does form part of the integrated organisational network within which MNEs operate.

The external factors receiving specific attention for their impact on subsidiary compensation design are employment legislation, industrial relations systems, economy and incomes policies, and national culture. While the thesis analyses these attributes separately for simplicity, it is recognised that they are largely interdependent (Jackson & Schuler, 1995), and that it is impossible to rigorously determine the impact of each variable and its interaction with others. The main outcome of the thesis is, therefore, a discussion leading to an explanatory framework on the influence

of the external environment and the MNE head office on MNE subsidiary compensation systems, together with some propositions grounded in the existing literature and case study findings. The thesis concludes with a consideration of the implications of the findings for strategic IHRM theory and practice, and further research.

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A research project of this nature would not have been possible without the co-operation of a large number of people who provided access to their organisations, time for interviews and case study data. I am therefore particularly grateful to the management of the eleven case study organisations in Australia and Singapore who assisted me over a period of five years. Because of an agreement on confidentiality, their names cannot be mentioned. In addition, I would like to thank the Singaporean representatives of management consultancies, employer associations, non-case study companies, the Australian Consulate in Singapore, the Singaporean Ministry of Labour, the Singaporean Industrial Arbitration Court, National University of Singapore, and the Singapore Institute of Human Resources who were extremely willing to discuss background information on human resource management and industrial relations. The Singaporean National Trade Union Council were especially helpful in providing data on the union movement and the industrial relations system in Singapore.

Any international study involves significant additional costs of travel, accommodation and subsistence, and I acknowledge a grant from the Research Fund of the Singapore Institute of Management and RMIT University to cover the costs of a return trip to Singapore and accommodation for a lengthy stay there.

Finally, undertaking a Ph.D. thesis by part-time study while being located off-campus in another State means that the relationship with the student's supervisor is unusually crucial in the learning process and maintaining contact with the University. I am therefore especially indebted to Professor Peter Dowling for his expertise in the supervision of my thesis and his encouragement throughout the duration of the project. His assistance was fortunately equally matched by the support of my family during the inevitable disruption to some aspects of family life.

Ken Wright
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Abbreviations

A$	Australian dollar
S$	Singaporean dollar
US$	United States dollar
	A$1=S$1.2401=US$0.7591 (as at 2 January 1992)
	A$1=S$1. 0763=US$0.7540 (as at 31 August 1995)
ABS	Australian Bureau of Statistics
ACAC	Australian Conciliation and Arbitration Commission
ACTU	Australian Council of Trade Unions
AFMEU	Automotive, Food, Metals and Engineering Union
AIRC	Australian Industrial Relations Commission
ALP	Australian Labor Party
AMACSU	Australian, Municipal, Administrative, Clerical and Services Union
ASU	More common initials for the Australian Municipal, Administrative, Clerical and Services Union
AWA	Australian Workplace Agreement
AWIRS	Australian Workplace Industrial Relations Survey
AWS	Annual Wage Supplement
AWU	Australian Workers' Union
AWU–FIMEE	Australian Workers' Union–Federation of Industrial, Manufacturing and Engineering Employees (from union merger)
BCA	Business Council of Australia
CA	Collective agreement
CEEEIPPASUA	Communication, Electrical, Electronic, Energy, Information, Postal, Plumbing and Allied Services Union of Australia
CEO	Chief Executive Officer
CPF	Central Provident Fund
CPI	Consumer Price Index
EAP	Employee assistance programme
EEO	Equal employment opportunity
EDB	Economic Development Board
ETU	Electrical Trades Union
EU	European Union
FBT	Fringe Benefits Tax (Australia)
FIMEE	Federation of Industrial, Manufacturing and Engineering Employees
GDP	Gross domestic product
GRC	Group Representation Committee
HCN	Host country national
HR	Human resources
HRM	Human resource management
IAC	Industrial Arbitration Court (in Singapore)
IHRM	International human resource management
IJV	International joint venture
ILO	International Labour Organisation
IR	Industrial relations
ISO	International Standards Organization
JE	Job evaluation
KPI	Key Performance Indicator
LPG	Leaded petroleum gas
MD	Managing Director (equates with a US company president)

MEWU	Metals and Engineering Workers' Union
MNC	Multinational corporation
MNE	Multinational enterprise
MP	Member of Parliament
MRU	Mutual Recognition Unit
NIC	Newly industrialised country
NPB	National Productivity Board (Singapore)
NSW	New South Wales
NTUC	National Trade Union Council (Singapore)
NUW	Abbreviation used for the Nation Union of Storeworkers, Packers, Rubber and Allied Workers
NWC	National Wage Case (Australia)
NWC	National Wages Council (Singapore)
OB	Organisational behaviour
PAP	People's Action Party (the party in power in Singapore)
PAYE	Pay As You Earn
PCN	Parent country national
PDM	Personnel Development Manager
PIPS	Performance Improvement Payment Scheme
SBU	Strategic business unit
SDC	Skills Development Council
SICC	Singapore International Chamber of Commerce
SIHRM	Strategic international human resource management
SILS	Singapore Institute of Labour Studies
SIPM	Singapore Institute of Personnel Management
SNEF	Singapore National Employers' Federation
SOEU	Singapore Oilco Employees' Union — a pseudonym for the house union of the oil company used for the study in Singapore
SPSB	Singapore Productivity and Standard Board (formerly the National Productivity Board)
TCN	Third country national
TQM	Total Quality Management
TWU	Transport Workers' Union of Australia
UK	United Kingdom
US	United Sates of America
UNCTC	United Nations Centre on Transnational Corporations
UWP	United Workers of the Petroleum Industry
VECCI	Victorian Employers' Chamber of Commerce and Industry

Glossary of Terms

Accord
Annual statements of accord between the Australian Labor Party (ALP) and the Australian Council of Trade Unions covering a range of economic, industrial and social objectives during the period of office of the ALP Government.

Australian Workplace Agreement
In the Australian context, a new type of non-union agreement which can be individually or collectively negotiated.

Award
A legally binding pronouncement by an industrial tribunal on the rates and conditions of employment for an industry, company, workplace or occupation.

Annual Wage Supplement
A bonus used in the Singapore context. Is also referred to as the '13th month' bonus.

Bargainable Employees
A term used to denote those employees who can be legally be represented by a union for the purposes of negotiating a collective agreement.

Collective agreement
A term used in Singapore to represent an agreement negotiated by a company with a union and ratified by the Industrial Arbitration Court.

Check-off
An arrangement by a union with an employer whereby union subscriptions are deducted at source from wages and salaries of union members.

Central Provident Fund
The compulsory fund in Singapore into which employers and employees pay a fixed percentage of salary. This acts as the main source of pension funds for employees.

Industrial Employee
Usually used in Australia to mean shop–floor or blue collar staff.

Minimum Rates Award
An award in Australia which sets out the legal minimum pay which has to be paid to an employee for a particular job classification.

National Wage Case
Used in the Australian context to describe the principal national wage review conducted periodically by the Australian Industrial Relations Commission, usually in the form of a test case by national unions, employers and the federal government representatives. It may result in the Commission setting the principles for compensation systems nationally and/or the awarding of pay rates for certain sectors of the economy.

National Wages Council
In the Singaporean context, is the tripartite committee which meets annually (usually in May) in Singapore to make recommendations to Government on what criteria compensation systems in Singapore should follow in the year 1 July to 30 June.

Over-award Payment/Rate
A rate of pay in an Australian workplace which exceeds the award rate allocated to a job classification by an industrial tribunal. It may only be given when the award is a minimum rates award.

Paid Rates Award
An award in an Australian workplace which specifies the actual pay rate which a person must be paid for a job classification and which must not be supplemented by over-award payments. This is compared to a minimum rates award which can be augmented at the workplace level by an employer.

Pay As You Earn
In the Australian context, normally refers to direct tax deducted from weekly/fortnightly/monthly salary.

Preference Clause
A clause in an Australian award which gives preference for employment to union members before non-union members.

Salary Sacrifice
The structuring of a compensation package for employees in an Australian workplace to maximise their disposal income without increasing the cost to the employer. It is usually involves making deductions from gross salary prior to the deduction of income tax.

Superannuation
Term used in Australia to mean pension scheme. It may be a bulk sum or annual pension.

CHAPTER ONE

INTRODUCTION TO THE STUDY

The Research Question and its Rationale

Australian industry is showing increased interest in international markets, especially in Asia (Kabanoff, 1996). While there are growing numbers of Australian off-shore international businesses, the Business Council of Australia (BCA) (1993:154) has exhorted management to 'dramatically increase the number of Australian companies that are global players' to generate an 'outward orientation' for the economy. Major Australian organisations such as Telstra, BHP and Lend Lease are now responding to this challenge (Stace, 1996a;1996b;1996c). The reluctance to locate off-shore has sometimes been due to the ease of selling in home markets or the perception that an international division was either an 'attractive side-bet' or a 'distractive nuisance' (Bartlett & Ghoshal, 1991:5). Australian business has often perceived that investing in Asia might be more risky or less lucrative than investing in the United States or Europe — perhaps understandably in the light of the recent Asian economic crisis (Economist, 6 December, 1997). While the Asian region now absorbs about 60 per cent of Australia's total exports — about twice the level of 30 years ago (Edwards, O'Reilly & Schuwalow, 1997) — much of this growth is due to export sales rather than off-shore investment into Asia (p.82).

Australia's change in international focus and the continuing growth and strategies of MNEs have led some researchers to describe the world as a 'global village' (Doktor, Tung & Von Glinow, 1991:259). Unfortunately, academic research has not always accompanied the growth of international business at the same rate, as international studies are often perceived as 'specialized' and 'esoteric' (Bartlett & Ghoshal, 1991). However, two-thirds of the world's chief executives expect employment and revenue to be increasingly created outside their company's home country (Adler & Bartholomew, 1992a); if they are correct, there is a real need to ensure that international human resource management (IHRM) research does not lag behind the needs of existing and potential multinational enterprises (MNEs). Because they recognise that HRM strategies can constrain the implementation of global strategies, top mangers recognise how 'critical' effective human resource management is to 'global success' (Adler & Bartholomew, 1992a:551). Indeed, human resource management (HRM) is increasingly being recognised as a 'strategic lever' with a marked effect on a firm's economic performance (Becker & Gerhart, 1996). However, it is likely that the knowledge of *what* to do in managing IHRM is greater than *how* to do it. This situation is pertinent in that Adler and Bartholomew (1992b:53) emphasised: 'transnational firms also need a transnational human resource system and transnationally competent managers'. Any attempt to set up a business overseas thus creates unique challenges for management, not the least of which are to formulate HRM policies to support internationally competitive business strategies (Dowling & Welch, 1991), and to train managers in international management skills (Yetton & Craig, 1995; Edwards, O'Reilly & Schuwalow, 1997).

This research study is about MNE compensation or 'remuneration', the latter term being more commonly used in Australia. Since the former term is more commonly used in the literature, it will be used in the thesis. The central guiding question for the study is:

How does the external environment of an MNE subsidiary influence the design of its compensation system?

The objective of the research is to explain the relative influence of elements of the external environment on subsidiary compensation design with a view to generating an explanatory framework and set of propositions based on case study findings and existing literature.

The external environment has always been acknowledged as being a significant influence on HRM strategies and practices (Cascio, 1992; Fisher, Schoenfeldt & Shaw, 1990; Devanna, Fombrum & Tichy, 1984; Carrell, Kuzmits & Elbert, 1989; Hall & Goodale, 1986; Whitfied, Marginson & Brown, 1994), and the variety of national external environments faced by the MNE is one key difference in managing an MNE compared with a domestic organisation (Schuler, Dowling & De Cieri, 1993). The importance of external factors in an IHRM context has even led some writers to recommend that they should be 'part of the HRM model rather than external influences on it' (Brewster, 1995:13). The HRM literature usually asserts that the elements for consideration should include the economy/market, demographics, social values, laws, and national and international competitors, labour market conditions, technological changes, government influences, unions, industry characteristics, and national culture (Schuler et al., 1992; Jackson & Schuler, 1995; Milkovich & Boudreau, 1997). A set of internal factors will also have an effect on the performance of the MNE (Schuler, Dowling & De Cieri, 1993). These may include the technology, structure of international operations, head office international orientation, size, life cycle stages, international business strategy, and experience in managing internationally (Schuler, Dowling and De Cieri, 1993; Jackson & Schuler, 1995). The internal and external characteristics are likely to be interlinked— a point acknowledged in the integrative framework of IHRM of Schuler, Dowling and De Cieri (1993).

It is recognised that the 'search for determining environmental factors and their systemization has been a matter of controversy ever since comparative management research was established in the sixties' (Pieper, 1990a:20). Listing the factors to establish national differences in HRM, Pieper (1990a:20) argues, 'only has a heuristic character and is by no means systematic'. Researchers tend to list what they believe is important in explaining the national HRM without any theoretical underpinning — 'the overall problem of comparative management research' (p.20), and may assert that culture is at the heart of national differences with the argument that 'since nations have different cultures, they consequently have different legal, political and industrial relations systems' (p.21). A general social theory of some kind is therefore needed to overcome some of the problems of the lack of theory of existing comparative studies. This will require 'a new level of cooperation between the disciplines' (p.22). This study is not intended to generate 'a new social theory'. It therefore conforms with recent attempts to analyse national differences without an over-riding theory of comparative HRM or IHRM. Precedents are provided in the nine country studies edited by Pieper (1990b).

While thus acknowledging that classifying and separating elements of the external environment is arbitrary and a simplification, four research questions (based on important elements suggested by the literature) guide the data collection and development of the explanatory framework and propositions. They are:

Research Question 1

How does employment legislation affect the compensation design of an MNE subsidiary?

Research Question 2

How does the economy affect the compensation design of an MNE subsidiary?

Research Question 3

How does national culture affect the compensation design of an MNE subsidiary?

Research Question 4

How does the industrial relations system affect the compensation design of an MNE subsidiary?

While the role of the head office of the MNE is not usually on the list of external environment elements, it is included in this study because the 'relevant' environment for an MNE affiliate not only includes the external environment but also 'elements of the corporate network as well' (Birkinshaw & Morrison, 1995:731). In addition, the international orientation of the head office of the MNE is also likely to have an effect on the choice of compensation design in the subsidiary and the management of the external environment (Schuler, Dowling & De Cieri, 1993). This orientation thus forms the basis for the fifth research question.

Research Question 5

How does the MNE head office international orientation affect the choice of compensation design in a subsidiary?

Like Adler and Boyacigiller (1996) and Teagarden and her 13 joint authors (1995), a qualitative and case study research methodology is used in this study (Wright, 1996; Yin, 1989). There is support for such an approach in international management studies at their current state of development (Mendenhall, Beaty & Oddou, 1993), and for more descriptive research on national differences in international compensation (Gerhart & Milkovich, 1992). The compensation practices of five pairs of MNE subsidiaries and companies which operate in Australia and Singapore are analysed, and the similarities and differences are utilised to generate some propositions about the effect of the external environment on MNE subsidiaries (Glaser & Strauss, 1967).

Apart from the greater Australian business involvement in Asia, there are strong reasons for choosing MNE compensation as a research subject. They relate to (1) the sheer scale of MNE activity, (2) the need for more research on reward systems, (3) the shortage of research on international compensation, especially outside the United States, Japan and Europe, (4) the state of IHRM generally, and (5) the paucity (with some notable exceptions) of IHRM studies in Australia.

Taking MNEs first, the management of the global workforce is on such a scale that it hardly requires justification for study, although the exact statistics on MNEs seem open to debate. Feltes, Robinson and Fink (1992) record that in 1988 2,000 US MNEs had 21,000 foreign subsidiaries in 121 countries, and the US Government estimated that there were 2.2M US citizens living abroad in that year. Arvey, Bhagat and Sales (1991) stated that the US expatriate workforce, spread over 130 nations, was more than 80,000. Emmott (1993) speaks of the world economy accommodating around 35,000 MNEs operating with more than 170,000 affiliates, while Ahrens (1996) posits that there were at least 50,000 MNEs in 1996; however, 80 per cent of production was concentrated in about 500 of them (Enderwick, 1989). Of course, MNE investment is not just one-way; foreign direct investment in the United States, for example, is said to be worth 300,000 new jobs each year to the economy (Hoffman, 1988).

Of general compensation work, in 1985 Kerr stated that 'surprisingly little research has investigated the design of reward systems' (p.155). The literature concentrated on reinforcement, behaviour modification and motivation theory, but 'little theoretical or empirical work' existed which could assist in designing compensation systems which were 'aligned with organisational strategy and structure' (p.155). Von Glinow (1985:193) echoed this, indicating that 'virtually no research' had examined the 'structural and procedural aspects of reward system practices' and that with the exception of Kerr (1985), 'no work has been done on the strategic implications of designing reward systems'. The lack of research on a contingency theory tying the compensation systems to operating objectives and strategies is surprising, since 'labour costs comprise more than half the costs in most organisations' and because pay systems were 'pivotal in terms of motivation, attraction, and retention of human resources' (Balkin & Gomez-Mejia, 1987a:169). Existing work had stressed the techniques of pay systems rather than their purposes.

Milkovich (1987:277) agrees with Balkin and Gomez-Mejia (1987a) that 'pitifully little is known about the pay-offs of specific pay policies and practices under varying conditions'. There was a need to study the compensation in both successful and unsuccessful companies and the various roles which pay played in HRM. According to A.W.J. Thomson's Foreword in *Pay Systems and Productivity*, the British text by Bowey, Thorpe and Hellier (1986:vii), payment systems were a 'much maligned and underestimated subject of analysis'. This was due to their lack of appeal and to their complexity. This is perhaps manifested in a 'lack of documentation' on the impact of external and economic factors on the compensation system (Butler, Ferris & Napier, 1991:122). Despite the wide attention that executive pay has attracted across many disciplines, little is known about 'how the internal and external firm contexts affect both the level and design features' of executive compensation (Gomez-Mejia, 1994:206). While a number of theories seek to explain why firms choose a particular pay policy and what the implications of this might be, Ehrenberg (1990:3-S) believes 'there is very little empirical evidence on whether compensation policies have their intended incentive effects at either the individual or corporate level'.

Gerhart and Milkovich (1990:663) continue along the same lines in that 'little is known ... about the extent, nature, determinants, and performance implications of differences in compensation system designs'. It would be interesting to know whether particular pay strategies were linked to chosen selection and development systems, and 'which combinations work best under different conditions' (p.687). We should examine why compensation decisions change, and whether other HRM decisions typically accompany them (p.687). Do we know why compensation strategies remain constant in some cases even when the external environment makes it advisable to change them? Is the reluctance to change because organisations give greater weight to internal consistency than to environmental change? Indeed, Milkovich (1988:284) stresses that 'more attention needs to be devoted to the effect of environmental jolts on compensation strategies'. It could be that an organisation will only reorientate its strategies after major changes in the environment. Much compensation research 'simply did not refer to the possibility of environmental effects' (p.281).

In addition, it appears that empirical work is 'greatly needed' on the long-term success of firms that modify their compensation systems in response to environmental change compared with those that do not (Gerhart & Milkovich, 1992:532). To an extent this exhortation is being heeded. Gomez-Mejia and Balkin (1992:5) observe that some industrial psychologists perceived a major trend for the 1990s to be the incorporation of 'contextual factors' when analysing the impact of HRM practices such as 'business strategies, organisation's history, firm size and structure, economics and legal conditions, and host country'. Within this context, 'compensation offered the greatest potential from a strategic perspective in terms of theoretical development, empirical research, and application' (p.5). In summary, then, one might start with the two significant questions posed by Rajagopalan and Finkelstein (1992:127) in their study of the environment and rewards: 'How do firms with different strategies adjust their compensation systems in response to environmental change?' and 'How does the environment affect compensation systems directly?'

Transferring the focus to the need for international compensation research, Arvey, Bhagat and Sales (1991) could find 'very little comparative literature' on compensation (p.369) and on comparative employee (fringe) benefits packages (p.397). Moreover, Gomez-Mejia and Balkin (1992:106) agreed that most work on reward strategy had concentrated on domestic economies and that 'very little is known about how international forces affect pay strategies and their effectiveness'. Although there have been many studies on national culture and management since the 1980s, the link with compensation had been mainly neglected. The implications for the practitioner were that 'those responsible for formulating and implementing transnational compensation strategies must rely on clinical judgement, gut feeling, heuristics, and perceptual data' (Gomez-Mejia & Welbourne, 1991:41). This deficiency had earlier been perceived by Milkovich and Newman (1984), who suggested that the trend towards using more expatriates in MNEs would require a more strategic approach towards international compensation. 'The apparent "firefighting" and non-systematic practices .. [then] .. in vogue .. [were] .. particularly dismaying' (p.492). As late as 1999, the same authors were still lamenting that international compensation in MNEs was not being sufficiently linked to competitive advantage and performance concerns (p.523).

Townsend, Scott and Markham (1990) summarised the benefits of a greater understanding of international pay practices as being the better meeting of employee expectations and an optimisation of the compensation budget. They noted the 'dearth of both theory and empirical research on cross-national compensation practices' (p.667). Pay studies, whether by local or foreign authors, had focused on a single country, but there was a need for 'true cross-national research with compensation practices as the foci of interest' (p.668) — a call repeated by Pennings (1993) in relation to comparative executive reward systems (p.277). Indeed, the amount of research on 'the interaction between compensation strategy and national culture and level of economic development of an economy was practically nil' (Harvey, 1993b:785). This deficiency is being rectified by recent work from Newman and Nollen (1996), and, to a greater extent, by Schuler and Rogovsky (1998). While the IHRM practitioner literature is replete with advice on expatriate pay, development of 'global compensation systems' for expatriates, foreign nationals and third country foreign nationals has been seen as 'one of the most important issues' facing IHRM (Harvey, 1993:56).

The particular justification for studying compensation in MNEs is that decisions of affiliates on HRM issues such as selection, compensation and training and development are 'particularly important' for MNEs (Martinez & Ricks, 1989:466). Yet 'few studies have examined the extent to which multinational parent companies actually influence these human resource decisions' (p.466). Furthermore, there is a paucity of HRM studies from the subsidiary's viewpoint (Erden, 1988), an area which is now being researched (see, for example, Roth & O'Donnell, 1996). The head office perspective is more common. There is little research in strategic international HRM 'on the major linkages between the corporate office and foreign subsidiaries' (Milliman, Von Glinow & Nathan, 1991:321). Going deeper into the infrastructure, Roth, Schweiger and Morrison (1991:370) detect the need to include 'management systems, communication processes, and managerial philosophies rather than only formal macro-organizational structures' in MNE studies.

On a more general IHRM level, Rosenzweig and Singh (1991:340) asserted that 'consideration of the international dimension of organizational environments' remained 'relatively unexamined', with Kochan, Batt and Dyer (1992:310) agreeing that the current research in IHRM 'defines the field too narrowly' and suggesting that explanations of varying HRM practices across nations had to combine micro and macro levels of analysis (p.311). Adler and Bartholomew (1992a:552) asked whether global HRM research was 'leading or lagging the needs of business', Adler having advocated in the previous year (with Boyacigiller 1991:283) that international studies should not be relegated to being 'a subsidiary of domestic research'. This obviously has implications at practitioner level where there is concern that executives pick up global perspectives and skills (Brandt, 1991; Overman, 1989; Ronen & Shenkar, 1988). Practitioners have not been helped by a literature on international HRM that was 'still rather sparse' and by the disciplines of international and comparative management which were 'not well developed' as at 1988 (Dowling, 1988:1–232/3). Consequently, Enderwick and Barber (1992:278), in a review of IHRM in the 1990s, saw a 'pressing' need for research of HRM strategies in MNEs and 'a strong case' for more research on HRM policies in new international business firms — a view which gets support from Jackson and Schuler (1995:257), who recommend that future work on HRM should reflect 'the reality of rapid globalization' and 'international context of large organisations'. IHRM has been judged now as a 'field of scientific inquiry' that is arguably no longer 'in its infancy' reflecting the development of IHRM issues, studies of HRM in MNEs, and accompanying theories in the last decade (Dowling, Welch & Schuler, 1999:iv).

The final reason for choosing a topic on MNEs operating in Australia and Singapore is that IHRM research in Australia is a reasonably new discipline. In this area, Dowling has been the leading contributor (see for example, Dowling, 1988), followed by Welch (see, for example, Dowling, Welch & Schuler, 1999) and, more recently, De Cieri (see, for example, Schuler, Dowling & De Cieri, 1993). Others are now entering the field (for example, Fish [with Wood], 1996, Hutchings, 1996 and Zhu, 1997). By comparison, the study of comparative industrial relations in Australia has been regularly offered in university industrial relations departments and has resulted in more academic writing, although the research is mainly focused at national levels rather than at foreign subsidiary and workplace levels (see, for example, Deery &

Mitchell, 1993; Frenkel, 1993a). However, recent work by Frenkel (1994) on MNEs is more workplace focused. With American IHRM research now being almost matched by the output from European writers, a need has been noted for more IHRM studies of organisations in Japan, Australia and the Pacific Rim (Brewster & Scullion, 1997).

The Concepts Used in the Study

This study concentrates on one aspect of IHRM and aims to fulfil its objective by providing:

- **a description of the compensation systems of five MNEs by studying pairs of selected subsidiaries and companies based in Australia and Singapore;**
- **an analysis of the similarities and differences in those compensation systems;**
- **an identification of the key external HRM environmental differences in Australia and Singapore that might cause those similarities and differences;**
- **an indication of the role of corporate head office in the design of the MNE compensation systems in the five MNEs;**
- **a discussion of the findings in order to generate a framework and propositions for further research**

Throughout the thesis, a number of key concepts will be used which it would be appropriate to define in brief at this stage. They are 'MNE', 'compensation', 'employee benefits', and 'MNE head office'. Other concepts (e.g. 'national culture' and 'collective agreements') will be explained as the study progresses.

Academics have not reached an agreed definition of MNEs, mainly because there is a vast range of organisations with international connections encompassing differing degrees of overseas investments, partnership and ownership (Fatehi, 1997). Terms in international management include 'global, world, transnational, international, supernational, and supranational' (Czinkota, Ronkainen & Moffett, 1994:356). In this thesis, the terms 'international, multinational, global and transnational' will be used interchangeably. There are precedents for this approach (see Phatak, 1992). Some authors use the term multinational corporation (MNC) (see Asheghian &

Ebrahimi, 1990), but 'multinational enterprise' (MNE) will be used here to cover all businesses that produce and distribute 'products or services globally without regard to political boundaries' (Taoka & Beeman, 1991:628). Thus 'MNE' incorporates multinational 'corporations', 'firms' and 'companies'. The operational definition of an MNE preferred in this project is that of Sundaram and Black (1992:733) because it tries to incorporate a range of past attempts and includes the influence of external and internal organisation. It is:

> An MNE is any enterprise that carries out transactions in or between two sovereign entities, operating under a system of decision making that permits influence over resources and capabilities, where the transactions are subject to influence by factors exogenous to the home country environment of the enterprise (Sundaram & Black, 1992:733).

The term 'subsidiary' and 'affiliate' will be used synonymously to mean an incorporated businesses in a foreign country in which the parent MNE holds an ownership position. It is accepted that the term 'subsidiary' is also complex in that it may be no more than a 'legal shell' (Birkinshaw & Morrison, 1995:750). Its role may vary by strategy, structure, autonomy, dependence on the parent MNE and inter-subsidiary contact, and be defined either by the parent MNE, the affiliate itself, or a combination of the two (Taggart, 1996). The term 'subsidiary' or 'affiliate' is also used to describe the business units located in Australia of two of the three Australian MNEs that were selected for comparison with Singaporean units, as explained in Chapter 4.

Reference will be made to the 'home country' — the location of the parent MNE, which is Australia in three of the five pairs of cases in this study. The fourth and fifth pairs are either European owned major oil and food companies, with separate subsidiaries in both Australia and Singapore. The 'home country' and corporate head offices for the oil and food MNEs are in Europe. The 'host country' is the foreign country in which the MNE has made an investment — taken as Singapore in the three Australian owned MNE cases in this thesis, and Australia and Singapore in the two MNEs of European origin.

Because of this study's reliance on American literature, the term 'compensation' as defined by Milkovich and Newman (1996:5) is preferred. This refers to 'all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship'. While 'remuneration' is used frequently in the Australian literature, 'compensation' is used interchangeably in some recent Australian publications (see, for example, O'Neill, 1990a; Schuler et al, 1992). The term 'pay' is occasionally employed in the thesis for variety, but usually to reflect 'compensation' as defined by Milkovich and Newman (1996:5) rather than to mean financial return only. An alternative term that might have been considered for general use is 'reward', which British writers Armstrong and Murlis (1988) claimed was more appropriate than 'salary' because it reflected the direction in which the development and management of compensation was going. The concept 'compensation system' is utilised to encompass all compensation decisions whereas compensation 'structures' are defined as 'pay relationships among different jobs in a single organisation' (Milkovich & Boudreau, 1997:474).

It has been usual compensation practice to sub-divide 'total compensation' into intrinsic and extrinsic rewards (Schuler et al., 1992). This project will exclude intrinsic rewards (job factors), concentrating on extrinsic rewards, which can be separated into wages, salaries or benefits (Schuler et al., 1992) or, synonymously, direct and indirect compensation (Milkovich & Newman, 1984). The direct aspect will include wages, salaries, base pay, award pay, performance related pay, and non-recurring rewards such as prizes and profit-sharing. Indirect compensation (benefits), for operational purposes, will mean pay for time not worked or off-the-job (such as various types of approved leave — holiday [vacation], compassionate, maternity, educational), protection (medical care, life insurance and superannuation [pension]) and some employee services and allowances (such as free uniforms, meal allowances, employee share schemes, long service awards, loans, cars, travel allowances, mobile telephones and social/recreational club memberships). A number of employee services and allowances have been excluded to restrict the project to an appropriate size for analysis. These exclusions include annual leave loading (in Australia), provision of car parking facilities, journal subscriptions, spouse travel, drug and financial counselling, subsidised canteens, income splitting, relocation and transfer assistance, library, holiday homes, child minding, language classes and various physical facilities such as sporting venues, and music at work. Unique benefits because of expatriate status, such as paid air fares for home leave, and children's educational expenses, are also excluded.

The provision of benefits varies in Singapore and Australia, possibly reflecting the adaptation to the different social and legal frameworks; comment will be made on the general trends in each country. The research will apply to full-time employees only in the five MNEs. It will usually exclude the compensation arrangements for contractors in Australia and Singapore, and 'foreign workers' in Singapore who are paid on different criteria, except where information was made available.

There are some problems operationally and conceptually in distinguishing between compensation strategies, philosophies, programs, policies, processes and practices, although Schuler (1992:20) argues that all these concepts comprise 'strategic [HRM] activities'. The emphasis in the project will be on compensation practices. Less attention will be given to policy alternatives and 'system architecture' (Becker & Gerhart, 1996), although 'compensation system' will be mentioned frequently as a generic term to cover policies and practices. In the thesis, the term 'strategic compensation' will not be used unless it is the subject of an author under review. Milkovich (1988), in a seminal work, suggested that strategic compensation rested on three tenets: (1) the fact that compensation practices varied across organisations and employee types, (2) that managers and employees had a choice of system, and (3) a supposition that if compensation systems 'fitted' the organisation and environment, the organisation would be more effective (p.263–4). However, there is some difficulty in defining 'strategic compensation'. Not all compensation decisions (such as choice of job evaluation system) are strategic. Milkovich (1988) therefore defined strategic compensation decisions as those 'that are critical to the performance of the organization' (p.265). He pointed out that these critical policy choices might vary according to employee group. The significant ones were the level of pay, 'internal versus external orientation, hierarchy ..., and the basis for the pay structure, reward mix, and the basis of rewards' (p.267). Later, Milkovich and Newman (1996:13) stated that 'compensation strategy' was a combination of an organisation's policies on internal consistency, external competitiveness, employee contribution, and administration of pay. While some of the internal issues are addressed in this project, its main concentration is on the external environment, so no assumption is made about whether compensation systems 'fit' business strategies.

For the comparison of the external environments of Australia and Singapore in relation to compensation, the following elements in Chapters 5 and 6 (some of which will be defined later in the thesis) will be analysed:

- physical geography and history
- demography
- economy
- system of government
- labour force
- national culture/social features
- employment law
- industrial relations institutions
- unions
- national incomes policies.

As mentioned above, the thesis analyses the external environmental features independently for simplicity, and it is recognised that they are largely interdependent (Jackson & Schuler, 1995). Moreover, the MNE is an 'interorganizational network' of head offices and sets of subsidiaries 'embedded in an external network' (Hannon, Ing-Chung, & Bih-Shiaw, 1995:532). Indeed, De Cieri and Dowling (1995:135) are of the view that in cross-cultural organisational behaviour research, an integration of macro and micro approaches (a 'meso paradigm') is more suitable for reflecting the 'integrative capacities' in MNEs. It is also accepted that where there are a large number of variables relative to the number of case studies, it is 'impossible to rigorously determine the impact of each variable and its interaction with others' (Frenkel, 1993b:8). Nevertheless, the selection of these elements not only conforms with the HRM literature already quoted, but also with the typologies of external characteristics receiving treatment in the current international and comparative management literature (see, for example, Tayeb, 1996, and Mockler & Dologite, 1997). Another example is Phatak (1992:8) who sees the 'international environment' as the 'total world environment' and 'the sum total of the environments of every nation in which the company has its foreign affiliates'. These could be examined by considering the legal, cultural, and economic environments and the political system.

Critical environmental constraints in some of the early comparative management literature were variously categorised as either educational-cultural, sociological-cultural, political and legal, and economic variables (Farmer & Richman, 1965) or socio-economic, educational, political, and legal and cultural (Negandi & Prasad, 1971). Farmer and Richman (1965:6) considered that in international management the external environment had received 'inadequate attention'. Comparisons of management in different countries would 'prove rather useless' unless the external environment was also included (p.6). In this thesis, the Farmer and Richman practice of synonymously using the terms 'environmental' or 'external factors', 'characteristics', 'variables', and 'constraints' is followed (p.26). Furthermore, the 'constraint' may signify that an environmental feature is constraining managerial effectiveness in a particular country to varying degrees, or may be seen in a positive light in that the external factors may produce 'dominant patterns of managerial and firm behavior' which may not necessarily have an adverse effect on managerial effectiveness (p.27). The same argument could be made in relation to compensation in MNEs.

As the orientation of the MNE head office forms the basis for a research question, 'head office' is in need of definition. Despite the term 'MNE head office' initially appearing to be unambiguous, the type and structure of the MNE usually determines the role and location of its head office (Nohria & Ghoshal, 1997). In these case studies, the term 'corporate head office' will mean the world head office for the entire MNE. As mentioned before, in two of the case studies, these are situated in Europe. One of these MNEs (Oilco) has separate subsidiary companies registered in Australia and Singapore which are quite large in their own right. In the second major MNE (Foodco), the Australian subsidiary in turn possesses a wholly owned affiliate in Singapore. In this instance, reference will be made to the separate Australian head office. Some of the MNEs that were founded in Australia have their world head office located in Australia, but also have regional offices in Singapore with some influence over the Singaporean subsidiaries as well. The complexity of another case studied (Metalco) was the owning of the Singaporean affiliate by an Asian based holding company which was, in turn, owned by a major Australian MNE at the project cut-off date. These issues will be clarified and revisited in the case study discussions, but their existence demonstrates that MNEs rarely conform to the 'pure' structures of the textbook.

The Study in the International Human Resource Management Context

At this stage, the research is now placed in the context of international management, or more particularly, against a background of international HRM (IHRM). Dowling, Welch and Schuler (1999:4–5) distinguish IHRM from domestic HRM by six additional factors:

- more HR activities
- need for a broader perspective
- more involvement in employees' personal lives
- changes in emphasis as the workforce mix of PCNs and HCNs varies
- risk exposure
- more external influences.

These additional activities cover taxation, relocation and translation services in particular (Dowling, 1988). The more complex external influences included dealing with host country governments, economies, business practices, labour relations, taxation and health and safety (p.1–241). Ricks, Toyne and Martinez (1990:220) noted that IHRM research had other unique features compared with domestic HRM, and that these were 'the interaction of differing cultural-based norms and value systems within single organisations, the cross-national transfer of management and management skills, and ways of learning and responding to stimuli because of socio-cultural differences'. Thus the challenge for IHRM was to research HRM issues that spread across different nations to help organisations to achieve objectives in both the home and host countries. While IHRM has been observed as a 'slowly emerging ... field of inquiry within ... HRM' (Dowling, 1989:66) and a 'field in its infancy' (Laurent, 1986:92), in recent years a considerable IHRM literature has emerged, although there may not yet be 'clear answers ... to managing human resources in the context of the global organization' (Schein, 1986:169). There is even debate about the term 'IHRM' as De Cieri and Dowling (1999) suggest that recent IHRM research and theory development 'make it more useful and accurate' to refer to 'strategic HRM in MNEs' than 'strategic IHRM' in order to highlight the HRM differences between domestic and international organisations (p.307).

Ricks and colleagues (1990:221) classify existing IHRM research under four main headings:

- management of host-country human resources
- cross-national transfer and management of human resources

- cross-national interaction of human resources
- comparative HRM.

The study of the management of host-country HRM may mean the analysis of domestic issues in a single international setting with more emphasis on 'cultural, economic, legal and sociological factors' (p.221). Although the results cannot be generalised to other nations, they can be useful to MNEs located in or considering locating in those countries. Examples of this type of research are the Brewster and Bournois (1991) study of HRM in Europe; Teagarden, Butler and Von Glinow's (1992) analysis of strategic HRM in Mexico; Holton's (1990) work on HRM in China; and Pucik's (1984) article on white collar HRM in large Japanese manufacturing firms.

Host country studies are few in number compared to the literature on cross-national transfer and management of human resources. Ricks, Toyne and Martinez (1990:221) refer to 'traditional and non-traditional lines of inquiry' in this area. The traditional study of expatriates has included their recruitment and selection (Scullion, 1992; Baliga & Baker, 1985; Hays, 1974), the adjustment and influence of the expatriate's spouse (Black & Gregersen, 1991; Black & Stephens, 1989), expatriate socialisation (Black, 1992), compensation (Young, 1973; Hodgetts & Luthans, 1993a; Bishko, 1990), productivity (Bird & Dunbar, 1991), loyalty to the MNE (Banai & Reisel, 1993), expatriate reduction (Kobrin, 1988), and utilisation of expatriates in environments of differing complexity (Boyacigiller, 1990). The non-traditional research in cross-national transfer and HRM has, according to Ricks, Toyne and Martinez (1990:221–2), focused on the HRM of international joint ventures (IJVs) and foreign subsidiaries, HR planning and 'the integration of HRM into the overall effort to match strategy and structure'. Examples can be quoted such as Miller, Beechler, Bhatt and Nath's (1986) research on global strategic planning and HRM, the problem of strategic variety and strategic control in MNEs (Doz & Prahalad, 1986), the impact of parent firm characteristics on personnel patterns in IJVs (Zeira & Shenkar, 1990), strategic management of HRM in an IJV (Gerlinger & Frayne, 1990) and organisational life cycles and strategic IHRM in MNEs (Milliman, Von Glinow & Nathan, 1991).

The study of cross-national interaction of human resources can be facilitated through the analysis of IJVs and MNEs (Ricks, Toyne & Martinez, 1990). The two parents of the IJV of various nationalities and the diversity of the MNE provide the opportunity to research 'the interaction of socio-culturally influenced management processes and practices' (p.222). The authors believe that this area of IHRM has 'considerable promise' for greater comprehension of the way HRM can affect the behaviour and strategy of MNEs and IJVs (p.222). Literature that might be mentioned in this context includes Dunning and Morgan's (1980) work on employee compensation in US MNEs and indigenous firms, Jain's (1990) inquiry into the HRM of Japanese firms, their foreign subsidiaries and their locally owned counterparts, and Von Glinow and Teagarden's (1988) examination of the issues involved in transferring HRM technology in Sino-US cooperative ventures.

The final classification of IHRM research suggested by Ricks and colleagues (1990) was comparative HRM. They emphasise that this is 'clearly distinct' from IHRM and is essential to the development of IHRM theory building and testing (p.223). The essence of comparative HRM is to investigate how HRM differs in each country as a result of different 'cultural, social, economic and legal reasons' (p.223). If one argues that industrial relations and HRM are inextricably linked, there is a growing interest in comparative industrial relations, which can assist in IHRM theory (for example, Locke, Kochan & Piore,1995; and the Australian texts by Bamber & Lansbury, 1998, and Deery & Mitchell, 1993) as well as recent comparative HRM texts such as Pieper (1990b), Hollinshead and Leat (1995), Moore and Jennings (1995) and Harzing and Van Russeveldt (1995), and smaller comparative studies on issues such as pay structures (Brown, Hayles, Hughes & Rowe, 1980), managerial values (At-Twaijri, 1989), and wage structures in developing African countries (Iwuji, 1980).

In terms of Ricks, Toyne and Martinez's (1990) four categories, this project could be classified as one of cross-national interaction of human resources, in that it studies the compensation practices of MNEs in the context of different socio-cultural environments. It could also be suggested that it investigates one aspect of strategic IHRM, a concept defined by Schuler, Dowling and De Cieri (1993:720) as:

> human resource issues, functions, and policies and practices that result from the strategic activities of multinational enterprises and that impact the international concerns and goals of those enterprises.

Finally, in placing this study into some kind of typology, we observe that Adler (1983) listed six types of cross-cultural research: (1) parochial, (2) ethnocentric, (3) polycentric, (4) comparative, (5) geocentric, and (6) synergistic research. Parochial studies are 'designed and conducted in one culture by researchers from that culture' (p.32). Ethnocentric studies are designed in one culture and then repeated in a second culture (p.33). Polycentric research is usually 'individual domestic studies conducted in various countries around the world' (p.34). The aim is to explain management practices against a particular cultural background. The comparative study tries to highlight the similarities and differences across two or more cultures with the focus on culturally specific or universal behaviours and practices. Geocentric research examines the management of MNEs and 'tends to be a search for similarity across cultures' (p.42). Synergistic studies address the issues of cross-cultural interaction in MNEs. One difference between synergistic and other studies is the focus in synergistic studies on 'understanding and generating the best balance between culturally specific (pluralistic) and universal (culture general) patterns of management and organization' (p.43).

In concentrating on MNE compensation systems only, this study could perhaps be classified as having ethnocentric, polycentric, comparative research and geocentric aspects. It is ethnocentric in the sense that Western compensation concepts such as internal consistency and external competitiveness are assumed to be issues of concern in Singapore as well as Australia (Milkovich & Newman, 1996). It is polycentric in that it tries to explain the design of compensation systems within specific cultures — the Australian and Singaporean national cultures. It is comparative in that it will show how the two cultures differ and how compensation practices are similar or country-specific, or even diverging or converging. It is geocentric in that it addresses a small fraction of the primary question 'How do multinational organizations function?' (Adler, 1983:31). It looks for similarities of compensation systems and philosophies of the MNEs across the two countries.

In a more recent piece, Adler and Bartholomew (1992a) used a typology for classifying publishing trends in international organisational behaviour (OB) and HRM. They divided them into (1) foreign national articles that focus on OB and HRM in one foreign country, (2) comparative international articles that compare OB or HRM issues in two or more countries, and (3) international interaction articles that focus 'on the interaction among organisation members from two or more countries' (p.553). This project falls into the second category. In addition, it would perhaps be further assessed by Adler and Bartholomew (1992a) as 'cultural', as national culture is expressed explicitly in the research. Whether it makes any difference is another issue (p.554). The research should also be categorised as a cross-national study, as opposed to a cross-cultural study, because of its sole concentration on Australia and Singapore. Although for the sake of analysis each country is assumed to culturally homogeneous, it is accepted that this may not be the case in either Singapore or Australia (Nasif, Al-Daeaj, Ebrahimi & Thibodeaux, 1991). The terms 'culture' and 'nation' are also used synonymously (Adler & Doktor, 1991 [1986]). Finally, it should not be concluded that there is only one possible approach to comparative HRM (Arvey, Bhagat & Sales, 1991), but it can be agreed that the area lacks a strong theoretical foundation (Pieper, 1990b; Boxall, 1995).

Structure of the Thesis

The first chapter has provided an overview of the topic and the broad rationale for the study. It has argued that the growing number of MNEs and the pressure on countries to develop overseas interests has created a need for IHRM research to help businesses formulate appropriate strategies, policies and practices. Research on compensation systems is very limited in the area of international environments and the way those environments affect MNE pay systems at micro subsidiary level. The main question chosen for this thesis is therefore about how the external environment influences compensation systems of affiliates. The objective of the project was outlined in the context of international human resource management typologies, and the main definitions provided.

Chapter 2 is the first of two chapters on literature relevant to the topic. It is devoted to domestic compensation and the external environment. The second literature chapter (Chapter 3) then considers the unique compensation issues of MNEs, and the main research underpinning the thesis, namely — the effect of the external environment on MNE compensation design. It concludes with a summary of the research on MNE head office control of HRM in subsidiaries.

Chapter 4 puts the case for using comparative case studies as the main methodology in this study, places the MNE case studies examined in context, provides detail on the semi-structured interview approach and outlines some of the problems involved and the shortcomings of the research.

Chapters 5 and 6 discuss Singaporean and Australian compensation in their local contexts. The environmental contexts include description of the demography, government, labour force, social factors and industrial relations institutions and structures. These chapters conclude with a discussion of the significance of the external environment for compensation design of an MNE subsidiary based in Singapore and Australia. As the case data collection cut-off date was 31 August 1995, only the environment up to 1995 is described, the assumption being that events beyond these dates would not have directly affected management's decisions on 1995 compensation arrangements[1]. However, where national Singaporean data were available only for 1996, these are provided as well.. This material is unreservedly descriptive in nature and intended to be a 'thick description' of the MNEs' contexts to supplement the cultural description (Boyacigiller & Adler, 1995:27). It is necessary to highlight the main differences between Australia and Singapore.

Chapters 7–11 record the findings of the case study fieldwork, and the following chapter (12) returns to the research questions, combines the findings, and compares the Australian and Singaporean compensation systems in general terms. Chapter 13 concludes the thesis with further discussion of the literature and cases leading to the development of a subsidiary compensation systems design framework, some suggested propositions on the effects of the external environment on MNE subsidiary compensation design, a discussion of the implications of the study for SIHRM theory and practice, and recommended issues for further study.

[1] As would have been expected, there has been a change in the Singaporean economy since 1995, and the Asian recession dramatically slowed the economic growth rates and increased the levels of unemployment and retrenchments in the country in 1998. The growth rate was 6.9 per cent in 1996 but increased to 7.8 per cent in 1997, unemployment being measured at 1.8 per cent. In contrast, the economic growth rate for 1998 was only 1.5 per cent (Foo Siang Luen & Kwih Toi Chi, 1999).

CHAPTER TWO

DOMESTIC COMPENSATION AND THE ENVIRONMENT

Internal Influences on Domestic Compensation

This research is about the effect of the external environment on the compensation systems of MNE subsidiaries and so takes as a given that an organisation is an open system that constantly interacts with the environment of which it forms a part (Mullins, 1993). An understanding of organisations is thus impossible without consideration of the impact of environmental forces (Katz & Kahn, 1966) and their role as one of the main determinants of organisational functioning (Aharoni, Maiman & Segev, 1981). To provide a foundation for the understanding of the interaction of the external environment on MNE compensation in Chapter 3, some literature on domestic compensation is reviewed first.

Corporate Strategy and Compensation

At the beginning of this thesis, compensation was defined as 'all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship' (Milkovich & Newman, 1996: 5). It had been a 'prominent research subject' in the scientific management days (1900–30) (Lawler, 1971:7), but (as of the 1970s at least) compensation practices were not research-based, and tended to be 'faddish and assumptive' (p.6). They often seemed to have developed by chance or to have been copied from other organisations. Gomez-Mejia (1988b), in an editorial for the *Human Resource Planning* journal, stated that traditional studies of compensation had been dominated by tools and techniques towards an objective of attracting, retaining and motivating. This had been superseded by the 'compensation strategy movement' which advocated a linking of reward systems to other functions in the organisation and held that 'innovative pay strategies should be used to reinforce corporate and business unit strategies' (page unnumbered). Concepts such as 'equity' and 'time-based pay' were being replaced by newer approaches, but in general, the literature on compensation decisions has arguably been limited to 'one or two theoretical vantage points' (Bartol & Martin, 1988:361). This deficiency is being rectified to some extent by the more recent work of researchers such as Gomez-Mejia and Balkin (1992), and Gerhart (with Minkoff & Olsen, 1995, and with Trevor & Graham, 1996).

Not everyone agrees, of course, on how important compensation systems are in an institution, nor that compensation is at 'the heart' of the employment relationship (Gerhart, Minkoff & Olsen, 1995). Beer, Spector and Lawrence (1984:115) posit that compensation has only 'limited potential for developing commitment and competence', that it 'should be used far less frequently as a leading policy area' in HRM, and that it should be considered as a support for other areas of HRM such as 'employee influence, human resource flow, and work systems' (p.147). Against that, Gomez-Mejia (1988a:496) sees the compensation system as a 'crucial' HRM system that emits powerful signals, shapes organisational climate or culture, reinforces institutional structures and encourages employees to behave in a way 'they perceive leads to rewards they value'. Milkovich and Broderick (1991:25) also assess compensation as a 'critical piece of human resource strategy', which, because of its visibility and importance, can help to identify and encourage achievement of corporate goals. Facilitating organisational objectives and reinforcing structure are now seen as significant objectives for a compensation system in addition to the normal 'attract, retain and motivate' goals (Schuler et al., 1992:256–7). Other compensation objectives may include complying with the law, influencing behaviour, maintaining efficiency, and controlling labour costs — illustrating that there may be as many lists of pay objectives as there are employers, and a different set for each business unit (Milkovich & Newman, 1996:13).

Up to 1987, little research had been done on tying the compensation systems to an organisation's objectives, strategies and environment via a contingency model (Balkin & Gomez-Mejia, 1987). The earliest (if conflicting) US literature on organisational strategies and compensation systems concentrated on executive salaries (Gomez-Mejia & Wiseman, 1997). The integration of HRM strategy (including compensation) into corporate strategy is a more recent idea. Success in achieving intended strategies depended on a 'match' or 'fit' between strategy, organisation and environment (p.171). Doing this via a contingency framework might assist in understanding the effect of macro-organisational issues on compensation strategies (Gomez-Mejia & Wiseman, 1997).

In an earlier piece, Gomez-Mejia (with Balkin, 1992) asserts that the strategic approach to compensation is based on two assumptions. The first is that pay systems must be analysed in the context of internal and external factors. The other is that an organisation has a vast range of compensation policies and practices from which to choose and each of them may have strategic implications (pp.34–5). The emphasis on 'may' here is important as not every compensation decision is 'strategic'. Others have developed this point (see Gerhart & Milkovich, 1990).

Strategic decisions involve top management, demand allocation of many company resources, 'have major consequences for multiple businesses or functions, are future orientated', need external environmental analysis and 'affect the long-term performance of an organisation' (Gerhart & Milkovich, 1990:668). Decisions on pay level and pay mix are likely to be strategic, whereas 'narrow tactical questions' such as choice of job evaluation systems are not. Milkovich and Broderick (1991:25) propose that the following five decisions 'are considered strategic by those who manage compensation systems': (1) compensation's role in total HRM strategy, (2) the level and mix of the pay, (3) the internal structures, (4) the criteria for and frequency of pay increases, and (5) the administration of the schemes. The four steps for developing compensation strategy were therefore (1) analysing compensation implications of business strategy, the external environment and the internal HRM conditions, (2) developing a strategic compensation position, (3) determining any gap between desired strategic position and current position and putting the compensation system into practice, and (4) implementing strategies (p.30–1).

The external environment is thus just one of a number of variables which might determine a particular compensation strategy. In Milkovich's (1988:274) view, the three main clusters of determinants are (1) organisation strategies (corporate, business unit and human resources), (2) internal environment (organisation types, internal labour markets, size, profitability and labour costs/total costs), and (3) external environment (legislative changes, labour unions, and product and labour market pressures). However, our understanding of compensation strategy 'is incomplete at best' (Gomez-Mejia & Welbourne, 1988:185). The research is sparse on the connection between organisational strategy and the appropriate compensation system. Most commentary is prescriptive in nature (p.185). A large company may have a mixture of pay policies, but 'each firm has its own unique history and tradition, cultural norms, and socio-technical and environmental forces that shape the framework within which the compensation system must operate' (p.186). Hufnagel (1987:93) also argues that while strong links between corporate and compensation strategies are advocated, many of the recommended frameworks use 'borrowed typologies' of strategic types. There is no unified view of strategy and strategic planning approaches.

Despite the deficiency of the evidence, Butler, Ferris and Napier (1991:124) advocate linking the compensation system to the strategic business plan because 'corporate performance and effectiveness will increase'. It may also force managers to 'think more long–term'. A 'well-designed' compensation system should thus 'be developed from the business strategy' (p.125). However, research on how the various components of strategy could be integrated was limited as, thus far, it had centred on organisation life cycles and diversification (p.127). One difficulty in all this, of course, is at what stage compensation should be linked to strategy. For example, Schuler and MacMillan (1984/1986) suggest HRM issues such as compensation practices should be considered at the corporate strategy formulation stage rather than at the implementation stage. The overall strategy should be formulated, the HRM strategy agreed and then the appropriate practices developed. Practices such as staffing and compensation created the competitive edge for the company. Although this is fine in theory, in practice managers might not follow the compensation policies which are linked to business objectives (Kramar, 1992).

Nevertheless, according to Gomez-Mejia and Balkin (1992:147), there are three propositions that have 'strong empirical support':

- The greater the fit between compensation strategies, overall corporate strategies, and SBU strategies, the greater the contribution of the pay system to firm performance.
- Firm performance improves as the congruency among the pay system, organizational characteristics, and environmental forces increases.

- The more pay strategies deviate from the 'ideal' compensation strategies appropriate for various organizational strategies, the lower their contribution to firm performance.

These propositions are based on contingency theory, which has already been applied to organisation theory and HRM policies and practices. In getting a suitable internal and external match, it is obvious that there is no universally ideal compensation system, as corporate strategies and contexts change over time and require different systems, and so should be flexible and able to adjust as circumstances change (Gomez-Mejia & Balkin, 1992). The corporate and SBU strategies can operate an 'independent as well as a combined influence on various pay strategies', but the closer the fit between pay strategies, organisational features and the environment, the better the firm's performance (p.119). The concept and testing of fit in compensation, however, is problematic. Gomez-Mejia and Welbourne (1988:187), for example, in discussing the concept of fit between corporate, business unit and HRM strategy state that because research is limited, 'we cannot be certain that fit is actually optimal for corporate success'. It may not be desirable to have a static fit. The reality may be more like 'shooting a moving target' (p.187). Compensation strategies may soon become obsolete as conditions change, one of these being the position in the life cycle.

Life Cycles and Compensation

Another contingency framework in the compensation literature is the linking of pay systems to organisational or product life cycles (Gerhart & Milkovich, 1992). Balkin and Gomez-Mejia (1987) saw the organisational life cycle as a helpful concept in the linking of business strategy and compensation systems. They suggested different pay strategies at the stages of start up, growth, maturity and decline, and concluded that 'the choice of specific pay incentives is constrained by the stage of the organisation life cycle' (p.245). Their study of the high-technology industry showed that most risk was assumed in the early stages, so stock or cash bonuses and stock options would be appropriate short- and long-term incentives.

According to Kochan and Barocci (1985:245), 'compensation policies evolve in response to changes in the external environment and in the needs of the organisation'. They argue that when an organisation or business unit is young, compensation levels and policies tend to be ad hoc and driven by the external labour market. As the organisation matures, more formality occurs and, once established, fundamental changes in the system are difficult to make. Newman (1988:200) suggests that in a declining product market, organisations should attempt to motivate 'special groups' with boundary-spanning functions linking external and internal environments. Compensation should 'reward behaviours that support those key interactions with the environment' (p.203). Most boundary–spanning roles, such as sales, are usually excluded from job evaluation and may be paid on incentives. Scientists may also be excluded from job evaluation and be 'more closely associated with external market rates' (p.203). In the same way that a compensation strategy should suit declining product markets, Balkin (1988:207) advocates the design of compensation policies to 'reinforce employee behaviours associated with rapid growth such as risk–taking, innovation and teamwork'. Basing his views on existing literature, he suggests in a normative way that incentives are more important in total compensation for fast-growing firms than in mature companies (p.210). Base salary and benefits have to be at a competitive level. Job evaluation may be used, but may be less useful for fast-growing firms. Profit-sharing and employee stock ownership are recommended for a rapidly growing firm, as are short-term pay incentives to encourage risk-taking and innovation. The key contributors such as successful sales people or research scientists should be rewarded with stock options.

In a study of 33 'high-tech' and 72 'traditional' (non high-tech) firms and business units, Balkin and Gomez-Mejia (1987) proposed initially that the product life cycle was likely to be 'the key determinant of compensation strategies and their effectiveness in achieving organisational goals' (p.171). A 'high-tech' firm was defined as a company with an annual budget for research and development of five per cent or more of its sales revenue. The results of the study (p.180) supported strongly the hypotheses that incentives will form a greater proportion of the compensation package and be more effective at the growth stage of the product life cycle. High-tech firms, in particular, had a higher incidence of incentive use at their growth stages, compared with non-tech firms.

Milkovich (1988) analysed the literature on life cycles and compensation and found that applications of life cycles commenced with executive pay and then extended to all levels (p.277). As a generalisation, for the start-up phase, compensation writers usually recommended 'an external market emphasis, low base/high incentive mix, low benefits, and an administrative style that emphasises decentralization and informality' (p.277). However, the cycle/compensation strategy approach can be criticised on a number of fronts (Milkovich, 1988; Butler, Ferris & Napier, 1991). It is very deterministic. There may be more than one compensation system suitable for a given cycle, and firms may have several products at different stages of life. Moreover, the literature often fails to distinguish between product, market, industry, and company life cycle. There may also be the research operational problem of knowing what cycle an organisation is in and when it has moved from one stage to another.

Diversification and Compensation

The other main theme of compensation research using a contingency approach has been on diversified organisations — an area more closely aligned to this thesis. Meals and Rogers (1986:89) state that academic compensation literature and company reward programs have focused on principles applying across the whole firm and have not attended to different strategies required for the business units. Miles and Snow (1984/1988) agree that the HRM system has to be tailored to the demands of business strategy and that in a multi-business organisation, the HRM department may have to 'offer services to a wide variety of strategic business units' (p.42). In reality, HRM systems have lagged behind structure and strategy, possibly because HRM departments were preoccupied with techniques or not involved in the design of organisations and the formulation of business strategies (p.51).

Milkovich (1988:275) is of the view that with diversification, 'organizations are classified as to whether they exhibit a single, dominant, related, or unrelated product diversification strategy'. The diversification appears to be 'an outcome' of a corporate strategy which encourages operation in a number of product markets. Because of the need to integrate the various businesses, compensation can serve as a 'key integration and control mechanism' (p.275). In this regard, Gomez-Mejia and Welbourne (1988) state that compensation decisions can be controlled by corporate headquarters or delegated to various plants, divisions or business units. Centralised pay might work best when corporate expertise is required and 'when internal equity is emphasised' (p.180). Decentralised compensation systems are preferable 'when local innovation is beneficial' and when business units have different life cycles or operate in different markets. Economies of scale or ease of administering legal requirements may also result in centralisation. Norburn and Miller (1981) recommend that top management compensation systems be linked to the 'characteristics of the strategic manager whose job it is to achieve that performance' (p.23). The characteristics needed in a particular strategic situation should be reinforced by the compensation system. In a diversified company that has a number of different business unit strategies, the use of a unified job evaluation system (such as a Hay system) is inappropriate — a conclusion which would be worth testing.

Two oft-quoted research findings on diversification and compensation are those of Kerr (1985) and Napier and Smith (1987). Kerr (1985:157) reviewed previous research, which suggested that as firms become more diversified, managerial performance tended to be judged exclusively on financial grounds and on the SBU rather than on overall corporate performance, and that more autonomy was given to the SBUs. This, in turn, affected the compensation systems. Napier and Smith (1987) found little support for the hypothesis that more highly diversified companies used more objective (as opposed to subjective) performance criteria for corporate managers. But they did find that the proportion of corporate managers' pay received as bonuses increased as a firm diversified. In more highly diversified companies, the bonuses were not necessarily based on objective criteria as might have been expected. They might have been more at the discretion of top management to encourage 'executive compliance with top management's expectations of performance' (p.200).

Two larger-scale projects were undertaken by Balkin and Gomez-Mejia (1990:162) and Gomez-Mejia (1992). In the first study, Balkin and Gomez-Mejia (1990:162) concluded that both corporate and SBU strategies were 'determinants of several SBU pay strategy dimensions'. The 1990 study found that as a company changes from a growth to a maintenance strategy, 'there is a change in pay mix', with a smaller incentive proportion of the package, but with higher benefits (p.163). Finally, Gomez-Mejia's 1992 research gave support for a hypothesis that single-product firms would be more effective if they adopted a more Experiential compensation. Algorithmic compensation seemed to be more successful among dominant–product firms, among related–product firms and among steady state firms (i.e. those that grow internally). Experiential compensation made a 'greater contribution to firm performance among evolutionary firms' (p.385).

In summary, the research suggests that there are links between different corporate and SBU strategies and various compensation systems. However, some caution is needed in generalising from the results because in most cases, the findings are based on survey or interview data, are limited to managerial and professional staff, and are usually based on the perceptions of HR/compensation managers (Milkovich, 1988). Furthermore, we cannot say that the corporate and SBU strategies are the sole determinants shaping compensation strategies, so the concept of management 'choice' in compensation is evident.

Management Choice and Compensation

Compensation strategy has been defined as:

> the repertoire of pay choices available to management that may, under some conditions, have an impact on the organisation's performance and the effective use of its human resources (Gomez-Mejia & Welbourne, 1988:174)

The success of the choice 'depends on those contingencies facing the organisation at any given time' (p.174). Watson (1986: 75) argues that the concept of strategic choice, which was highlighted by Child (1972), goes beyond the 'deterministic implications of contingency thinking'. It emphasises the freedom of choice which 'key decision-makers are said to have'. Decision-makers are members of the dominant coalition who accept that there are constraints in factors such as size, technology and environment, but who believe that these factors can be changed or manipulated. Milkovich and Broderick (1991) posit that the major issue arising from environmental impact is the amount of choice available to managers. While legislation reduced the 'viable choices', organisations do develop various options within environmental constraints which may develop competitive advantage (p.31), with the choices manifesting themselves in compensation policies.

Several writers have discussed the various options in compensation choices and have listed them as a set of continua. Examples are Schuler et al.'s (1992:274) eight pairs of continua and Gomez-Mejia and Balkin's (1992:61) Algorithmic and Experiential Profile. For instance, Schuler et al. suggest that the level of base pay may be influenced by the choice between internal and external equity (i.e. internal relative worth or external market rates). Lawler, in a 1986 paper, went further and focused on nine strategic issues on pay which required 'strategic choices' (p.217). They included the process issues (communication and participation) as opposed to the mechanics; paying the job as opposed to paying the person; seeing compensation as an end in itself rather than a means towards organisation effectiveness; internal as opposed to external equity; a centralised as opposed to a decentralised system; the role of performance in compensation; and the compensation mix. However, Gomez-Mejia (1992:392) is right in suggesting that firms are not faced with a set of 'bipolar choices', but rather a set of interrelated compensation decisions about, say, the *degree* of Algorithmic or Experiential dimension they wish to pursue. Nevertheless, managements do not have unlimited choice and so may not optimise their situation. The degree of choice may vary across SBUs according to the technology, nature of the work and workforce, and rate of change of the environment.

From the empirical research on compensation choice, two studies can be highlighted. First, Weber and Rynes (1991) studied the way compensation managers used information on job pay rates, market survey rates and job evaluation results in making job decisions, and whether 'differences in compensation strategies and organisational demographics such as size and industry influenced job pay decisions' (p.88). They found that job evaluation and market information figured significantly in job pay decisions by compensation managers, but 'increases in market rates produced larger increments in pay assignments than did equivalent increases in job evaluation points' (p.103). Managers did not 'appear to attach as much importance to job evaluation as they [did] to market surveys', but this may depend on whether the managers are internally or externally orientated; internally focused ones place almost as much weight on job evaluation results as they do on market surveys (p.103). Furthermore, organisational demographic factors such as size and industry seemed to be less significant in job pay decisions than 'current pay market rates, internal job structure, and pay strategies like market position and orientation' (p.104).

Second, in a study of longitudinal data on about 14,000 top and middle level managers and 200 organisations, Gerhart and Milkovich (1990) argued that 'theories focusing only on individual, job, and environmental factors [were] not sufficient for explaining organisational differences in compensation practices' (p.683). They found that 'organisational differences in pay mix were not only larger than those for base pay but also less well explained by industry, size, and financial performance' (p.685). The pay mix also seemed to be related to subsequent financial performance, whereas base pay level was not (p.685). One explanation is that organisations have less discretion in altering pay levels because these might lead to product price increases, while the pay mix can be adjusted without major cost implications. The pay mix relationship to financial performance could be explained by pay levels being insufficient to affect performance whereas a risk element in the pay might do so. The authors advise some caution in interpreting their results because many factors determine a return on assets (p.686).

Despite the internal constraints, it could be argued that compensation can more easily be 'manipulated and directly controlled by management' than most other HRM variables (Gomez-Mejia & Balkin, 1992:6). In addition, 'most organisations have considerable discretion' in decisions on pay allocation, principles and administration (p.13). The deterministic models of pay design based on equity, labour markets, job evaluation and salary surveys overlook the unique pay issues facing each firm, the environmental and business context and the likelihood of different pay systems in different parts of the organisation (p.13). Most assumptions of traditional compensation systems are inappropriate for managerial, executive, research and professional ranks (p.13); the systems are inflexible, accused of gender bias and subject to error (e.g. salary surveys) (pp.14–15). The success of the choice of compensation system depends on how well the choice allows the firm to 'cope better with contingencies' and is integrated with the firm's corporate strategy (p.35).

In place of the traditional approach to compensation, Gomez-Mejia and Balkin (1992:18) advocate a strategic approach in which the reward system is customised 'to withstand jolts coming from the rapid shifts within and outside the firm' and which is used flexibly to achieve business objectives. Compensation must be an 'integral part of strategy formulation', play a major part in strategic decision making, reflect the wishes of the firm's major constituencies and stakeholders (p.19) and be assessed against the firm's performance (p.20). Contingency theory, strategic choice, industrial economics, transaction cost, and strategic employee group models might serve as useful foundations to examine this.

Summing up, the message is that there is no ideal compensation system for all organisations at all times. The exhortation is to choose the compensation strategies that will give a company competitive advantage. The difficulty is knowing which choices from the menu to make. Each organisation is likely to have a unique compensation system, but is unlikely to optimise its choices because of internal and external influences beyond its control. Yet compensation decisions might be more firmly under the control of management than the other HRM choices. From the limited research undertaken, ensuring a fit between compensation and corporate and SBU strategies and the features of the internal and external environment is more likely to result in higher performance. But the practical difficulties of achieving this are somewhat daunting.

Other Organisational Influences on Compensation

While corporate and business unit strategies are very significant influences in compensation design, the effect of other internal and external features should not be under-emphasised. It has been accepted that pay decisions are affected by external influences such as the economy, product and labour markets, government regulations, and unions (Milkovich & Boudreau, 1997). The internal influences are the other systems in the organisation (including HRM) and the characteristics of its employees — this latter factor being 'too easily and too often overlooked in designing pay systems' (p.458). There is also evidence that human resources strategy will have an impact on compensation policies (Milkovich, 1988).

Milkovich (1988:279) quotes two empirical studies in which HR strategies were shown to affect compensation policies. Wils and Dyer (1984) (quoted in Milkovich, 1988) examined the link between 22 business unit strategies and HR strategies and concluded that compensation systems were perceived to vary in importance by line managers within the context of HR strategies according to the business strategies being pursued, such as growth, profit or stabilisation. 'Compensation was not seen as among the most important activities in either profit or stabilized units' (p.279) although it was in the growth units. De Bejar and Milkovich (1986) (quoted in

Milkovich, 1988:279) surveyed 129 business units across various industries and found that 'the nature of incentive compensation emerged as a critical dimension'. Not so critical were other aspects of the compensation system. Both studies should be treated with reservations, as they were confined to managerial compensation, and are of limited general application.

Research on direct links between compensation systems and an organisation's culture is limited (Milkovich & Boudreau, 1991). The relationship of pay and organisational culture was alluded to by Lawler (1971:276), who suggested that the pay system 'must fit the human relations climate of the organisation'. Pay secrecy, for example, might be related to how authoritarian or participative an organisation was. Piece-work does not have to be accompanied by an authoritarian climate, but 'it is difficult to convince people they can be democratically administered' (p.277). The technology and structure of the organisation may also affect pay systems (p.278), so the compensation system has therefore to be tailor-made to fit the characteristics of the organisation to be effective (p.281).

Von Glinow (1985) provided a typology for the design of compensation systems for professionals within four cultural contexts — the apathetic, caring, exacting and integrative cultures — arguing that there was a 'close interdependence between an organisation's reward system and the culture in which it is embedded' (p.192). The compensation could be 'symbolic of the culture' on some occasions, although the culture could also be perceived as the reward by professionals. The core values of the organisation are reflected in the way compensation is selected and distributed. The culture may also affect the criteria for reward distribution and the way the system is administered (p.194). However, compensation may affect culture through its influence on 'motivation, satisfaction and membership' (p.195). According to Muczyk (1988:225), 'the US has become an "instrumental" culture'. Employees will therefore only be effective when they are convinced of a link between effort and performance, and between performance and rewards. This could be compared with Japan's 'normative' culture, where workers work hard because of their values to 'embrace loyalty and postpone gratification' (p.226).

The mention of employee values raises the issue of motivation and incentives (performance-linked pay) — the variable component of the compensation system. In the context of this study, the important question is whether and why similar incentives are used internationally, and with what effect. The assumptions of management about factors that might enhance motivation are also interesting. Bolle de Bal (1990) notes a re-emergence of wage incentives throughout the industrialised world, especially those wage incentives which are linked to corporate profits. This has been due to the trend towards flexibility, deregulation and the increasing autonomy of employees. Similar trends are occurring in centrally planned economies. This led Bolle de Bal to suggest that 'there signs of a gradual convergence between the capitalist and socialist socio-economic systems, as evidenced by the evolution of performance-linked remuneration' (p.51). Pay-for-performance may be used by employers to generate a new attitude in employees to link their effort to performance and ultimately to profits and thus 'eschew unreasonable demands' (p.52).

After even a cursory reading of the numerous available articles on incentives, it is evident that most ignore external factors which might affect the operation and design of a scheme and that the adjective 'strategic' is very rare. The exceptions include Salter (1973) who advocated the 'tailoring' of incentives to strategy, as 'incentive compensation policy' was 'intimately related to corporate strategy' (p.101), and 'strategic impact merit pay', which is a type of variable compensation. It 'ties the duration of raises to the strategic impact of employees' work' (Newman & Fisher, 1992:39). But a review of research on merit pay by Heneman (1990:253) concluded that there was 'very little research' on the relationship between environmental characteristics and merit increases (p.236). Yet the environment arguably has a significant impact at times. There is evidence that employees in demand in a tight labour market might receive larger merit pay (p.254). The profitability of a firm may determine the size and manner of pay–outs, and the nature of the product market's volatility 'may have an influence on the type of incentive plan that is used' (p.254). The size of merit awards for non-unionised staff has also been used as a benchmark in negotiations by US unions for unionised employees (p.255). The major research on incentives in Britain by Bowey, Thorpe and Hellier (1986) discovered that government incomes policies in the 1970s renewed an interest in productivity incentive schemes.

Finally, there has been a range of research on the unique issues of technology and compensation, namely high-technology companies and R and D personnel. For example, Hannon, Milkovich, Gerhart and Friedrich (1990) studied more than 200 firms over the period 1981–85 and found high-technology firms had higher base pay and greater bonuses, and made greater use of longer-term incentives. This applied across various industries and led to the notion that compensation decisions exhibited 'strategic-like properties' which might be 'more aligned with organisation characteristics (e.g. R and D strategy) rather than industry patterns' (p.283). Appelbaum (1991: 27) also noted differences in compensation in US high-technology companies, concluding that they were different from other industries in that they offered four principal rewards: (1) a high incentive components, (2) stock ownership for all employees, (3) special incentives for key contributors, and (4) dual career paths to enable technical employees to parallel a managerial compensation progression. This does not altogether support Gomez-Mejia and Balkin's (1989) findings that individual-based compensation such as merit pay or individual bonuses were 'perceived as less effective than aggregate incentive strategies for R & D workers' (p.431). Aggregate incentives were more likely to prevent R & D staff from resigning, gave them more pay satisfaction and were more motivating, but team-based bonuses were 'perceived as the most effective rewards in an R & D setting' (p.431).

What has been summarised in this section is some selected general literature on compensation. The intention was to show the research on the range of internal variables which affect the design of compensation systems. Each of these may have some influence on the pay polices of an MNE subsidiary. We have noted that management has considerable choice of design, but this might be affected by the need to link compensation to corporate or SBU strategy, the stage in the organisation's life cycle, its diversified nature, the culture of the firm, the type of industry, the sophistication of its technology, or the kind of employee employed. The stage of empirical support for many of the propositions of this research has been described as 'tentative' (Gerhart, Minkoff & Olsen, 1995:535).

External Influences on Domestic Compensation

Any thorough explanation of compensation systems must include consideration of the external environment, but much research on rewards 'simply [does] not refer to the possibility of environmental effects' (Milkovich, 1988:281). The conceptual difficulties involve deciding which elements specifically influence a compensation system, classifying the dimensions, and identifying which aspects of compensation are affected by external changes.

The External Environment and Compensation

As Anthony, Perrewe and Kacmar (1996:385) point out, 'while many external environmental factors impact an organization, only a few have a direct effect on an organization's reward system'. There is a large literature on the effects of unions and broad industry characteristics on compensation, but there is little coverage of whether organisations facing similar industry and external environments have different reward systems (Milkovich, 1988). Milkovich's analysis (1988) is limited to unions and legislation, but his text written with Boudreau (1991), includes product and labour markets as well (p.446). Anthony and colleagues (1996) also confine their discussion to the product and labour market and government regulations. Schuler et al.'s (1992) text refers to the labour market only (p.261).

There is little empirical work on environmental dimensions that might affect compensation of the business unit. Gomez-Mejia and Balkin (1992:74) list these as the degree of uncertainty, volatility, the magnitude of changes, and the complexity of the environment, but they are not further developed in the text. The issue of concern is whether environmental constraints 'allow any room for managers to adopt different compensation policies in support of their business strategies' (Milkovich & Broderick, 1991:31). Legislation restricts choice, but companies take different options in responding to changes in legislation, society and technology. It is perhaps easier to perceive reactions at a macro level in the practitioner literature rather than at micro level. The move towards 'new pay' in the United States has been attributed mainly to the major changes in the external environment (Schuster & Zingheim, 1992). The 'new pay' is supposed to reflect 'an understanding of organisational goals, values, and culture and the challenges of a more competitive global economy' (p.xi). It has been driven by factors 'initiated from outside the organisation' (p.24). Kanter (1987:12) also posits that the move from 'status' to 'contribution' as the basis for compensation was due to a large number of 'economic, social and organisational changes'. In another 1987 piece, she attacked the traditional US pay schemes, saying 'these old arrangements' were no longer appropriate because of economic, social and organisational changes. The changes in compensation systems across Europe, particularly the 'decollectivisation of pay' have also been attributed to the pressures of the external environment in the form of demographic and structural change, economic uncertainty and unemployment, and the weakening of the unions (Filella & Hegewisch, 1994).

Other specialist compensation writers have recognised the influence of the external factor on compensation systems over a much longer time span. Belcher (1974: 365–6) notes that compensation changes have been due to economic changes through 'continued industrialization', changes in the mode of living, 'the social determination of the way in which compensation is distributed', and collective decisions of government, management and labour. The government, in particular, through income tax legislation and incomes policies, has had considerable influence (as have unions) on the growth of employee benefits (p.367). Other constraints include culture, the economy, other organisations, and 'the size, structure, technology and climate of the organization' (p.448). Mahoney (1989/1992) compares traditional and non-traditional compensation designs against environmental change. He argues that job-based compensation 'emerged with industrialisation', the factory system and mass production (p.338). Lawler in *Pay and Organization Development* (1981:222) reported that in the 1970s the three most critical social trends for compensation were the rise in international competition, 'the enormous growth' in the regulation of private business, and the likely lower economic growth and higher inflation in the 1980s. To demonstrate the relationship, he attempted a matrix (p.226) listing social changes in the workforce, organisation, and the environment on one axis and pay practices (divided into the four dimensions of individualised pay, open and defensible decision processes, performance-based pay and more egalitarian systems) on the other.

One of the few empirical studies on compensation and the general industrial environment, by Rajagopalan and Finkelstein (1990), analysed the effects of the environment on the senior management compensation systems of 50 large US investor owned electric utilities. The electricity industry was deregulated after 1978 and the authors investigated the way in which this changed the degree of managerial discretion on policy options. The hypothesis was that the amount and type of compensation would vary with discretion (p.32). The results were that 'the greater the level of managerial discretion, the greater the amount of compensation paid to chief executive officers, the more common the utilization of performance-contingent incentive mechanisms, and the greater the proportion of incentive pay' (p.36). They also suggested that firms do change many aspects of senior management compensation in response to major changes in the environment and 'that changes in amount, type, and mix all tend to be consistent with the strategic orientation of the firm' (p.36). This supported the notion that when an organisation adapts to the changing environment, it adjusts its structural mechanisms as well as its corporate strategies.

The conclusion from this discussion is that the general external environment does play a big part in compensation design, but at this stage the empirical studies, as opposed to the practitioner literature, are not numerous. More work has been done on specific elements of the environment.

The Social Environment and Compensation

Moving from the general environment to the specific, and starting with the social element, HRM texts have traditionally included comment on changes in the social environment as it affects HRM. This usually includes demographic trends, labour force, racial composition, and family and worker value changes. The shifting family situation impinges on benefits such as child-care and parental leave, the ageing workforce on retirement schemes, and the changing nature of work and skill requirements on career ladders and compensation systems. 'The dramatic increase of women and minorities' in the US workforce meant that organisations had to 're-examine policies, practices and values' (Fisher, Schoenfeldt & Shaw, 1990:22). Furthermore, 'worklife is changing' (Carrell, Kuzmits & Elbert, 1989:27). Employees were not only just required to give 'a fair day's work', but also 'quality, innovation and excellence'. In exchange, employees wanted participation in decision making, flexibility of hours and benefits such as 'child-care, EAPs and a healthy work environment' (p.27).

Kochan and Barocci (1985) saw the shortage of jobs and career prospects in the 1980s as putting pressure on compensation and career policies. There was much misinformation about whether worker values, attitudes and expectations had changed over time in the United States, and there was a lack of data 'tracking the history of worker views on a broad range of employment issues over substantial amounts of time' (p.49). There was no support for the view that the work ethic had declined in the United States, but workers did appear to have changed their expectations about work and careers (p.51). Survey data suggested that pay and benefits were still given high priority by employees in the United States, although control over the work environment and career prospects were also rated highly (p.52). However, empirical work on the work ethic was still proceeding.

In the Australian context, Kramar, McGraw and Schuler (1997:70) emphasised three shifts in Australian social structure as the 'most significant' for the management of organisations in the future. They were: (1) the growth in flexible work arrangements, (2) the increase in the numbers of women in management, and (3) the rising levels of education in the workforce. The compensation implications in Australia were a decrease in penalty pay rates (for abnormal working hours), conflict over relative compensation for sub-contractors and permanent staff, and (like Carrell, Kuzmits & Elbert, 1989) a desire for more employee involvement in decision making.

On the same theme, Schiemann (1990:124), a practitioner, believed that greater education of the workforce has created 'more sophisticated consumers of benefits and compensation policies' and that they required participation in compensation decisions and more choices of incentives and benefit options. Risher (1992), also a practitioner, was of the opinion that pay-for-performance would increase in the United States in the next few years (i.e. 1992 onwards), that the recognition of, and reward, for good performance was 'consistent with North American culture' and that the importance of individual effort and recognition of the value to society was crucial. 'This cultural value system affects the mind-set of workers at all levels' (p.3). Contrary to this, Lawler (1990) propounds that industrial incentive schemes have lost their popularity because of societal changes as well as their complexity and inefficiencies (p.63). The expansion of employee rights and legal redress in the United States had made incentive systems more open to challenge (p.65). However, in addition to incentives, Milkovich and Newman (1996) suggest that societal factors have historically affected the internal equity of compensation systems. Approaches over the years used to justify compensation arrangements have included the 'just wage doctrine', 'societal norms, custom and tradition' (p.54), and comparable worth (England, 1992).

A number of the HRM issues so far mentioned are part of the challenge of managing diversity, and Barber and Daly (1996) provide a useful discussion of the way 'new pay' systems might relate to diversity in the United States. In summarising the research on racioethnic and gender diversity, they conclude that (1) the differences in compensation preferences between blacks and whites in the United States can only be partly explained by socioeconomic factors (p.198), (2) while some research reveals that women place a higher value on 'nonmonetary job attributes' than do men (p.198), recent evidence showing no observable differences between the sexes in the preference for high pay may be a sign of less role and occupational segregation, and (3) men and women differ in what they consider as fair in the allocation of compensation. The obvious implications for the MNE are that as well as diversity across cultures, the preferences for compensation systems may vary within a workgroup.

This section has shown that empirical work on social trends and compensation is not copious on a general level, but that separate facets of the effects of social change and diversity on specific aspects of compensation (such as the connection between changing workforce composition and child-care demands) are evident.

The Economic Environment and Compensation

Moving now to the way the economic environment may impinge on compensation systems, the analysis could include macroeconomic and microeconomic forces, particularly the product and labour markets of the organisation. Kochan and Barocci (1985:36) see the 'particularly important' macroeconomic policies of a government to be its fiscal or spending policy, monetary policies of a central bank, formal or informal incomes policies and industrial policies that influence domestic and international trade and investment. These policies would affect inflation, unemployment and economic growth rates. These in turn could affect HRM/IR policies, including compensation, by shaping employee expectations about wage and salary increases, the bargaining power of unions and workers, the discretion of management and unions under an incomes policy, and the future of specific industrial sectors (pp.36–7). Decisions of unions and management can, of course, affect government monetary policy by the scale of negotiated settlements. In the product market, the degree of competition facing a firm may affect its ability to offer pay rises and its discretion to be innovative in compensation (p.42). In times of high product demand, it may be easier to pass on higher prices. The ability of the employer to pay higher wages may also be dependent on the productivity and profitability of the company (Ivancevich, 1992:363). By contrast, determining public sector compensation levels may be part of a government's economic strategy to control earnings across both private and public sectors (Wise, 1988).

In the labour market, the level of unemployment might influence the level of earnings necessary to attract and retain staff. However, the labour market 'is not influenced or controlled by any single force' and its unpredictability adds 'an element of frustration' when forming HRM policies (Carrell, Kuzmits & Elbert, 1989:26). Moreover, Milkovich and Newman (1996) argue that the concept of one 'homogeneous' labour market does not reflect reality, as firms operate in a number of labour markets (p.230) and 'very little research' had been done to assist organisations in making 'pay level decisions' (p.241). Linking the economic environment to internal compensation structure is also problematical, but it may influence the internal equity of a structure as skills in demand may be paid more highly, and the differentials may then become entrenched and accepted over time (Milkovich & Newman, 1996). Perhaps Cascio (1991:421) sums up the issue best by stating that what national monetary or fiscal economic policies actually 'affect wage levels and to what degree' is a mystery. Indeed, some organisations try to 'insolate themselves from the vagaries of the labor market' by restricting their hiring to junior-entry level employees only and then relying on strong internal promotion systems (p.421).

Governments and Compensation

Management of the macro economy can include national incomes policies and legislation that reflect the role of government in compensation at business unit level. Milkovich and Boudreau (1997) suggest that governments influence compensation systems through laws and regulations and, more indirectly, by socioeconomic policies (p.458). Indirect government influence on compensation can occur through wage laws, fiscal and monetary policy and social welfare law (Milkovich & Newman, 1996). Governments may also impose incomes policies on employers and regulate wage rates, hours of work and employee benefits (through tax legislation). Wage and price controls can be implemented to maintain low inflation and employment. The intervention of governments can vary — examples being freezing wages at a certain level, linking wage rises to productivity increases, providing formulae for compliance to a standard of wage increase, and allowing a wage increase in line with some price change (Milkovich & Newman, 1996). The danger is that any external control implemented at an arbitrary point will inevitably cause inequities for an employer or employee (p.498). Ivancevich (1992) agrees that the introduction of regulations by government means employers must change their policies, irrespective of their view on the ultimate effectiveness of those policies. The government's interest in compensation could be to ensure that 'the distribution of financial compensation supports the social and economic interests of the broader society' (Scarpello & Ledvinka, 1988:361). It does this by legislating to provide a basic level of 'security from poverty' and to maintain and improve the social and economic environment. For example, the mandated practices in the United States can be grouped under fair exchange for the price of labour, income continuity (unemployment or disability), and retirement security protection.

According to Kochan and Barocci (1985:57), a government can also act as a 'mediator' between the 'multiple interests present in the employment relationships'. This might mean setting minimum standards, and determining 'how much autonomy to delegate to private management at the work place', as governments attempt to operate in the public interest. The researchers argue that in the United States (until 1985 at least) there has been a long-term trend for governments to become more interventionist in shaping terms of employment and the processes by which these were determined. However, US Governments have not 'assumed an active role in strategic business decision making that affects human resource management within a firm' (p.497). Business had frequently not directly interacted with government over economic policy and US unions have not sought join on corporate boards. At a functional (middle) level, Kochan and Barocci also compare the industry and enterprise-level industrial relations structures of Europe and the United States, where the government role differs, where there is more uniformity of structure (compared with diversity of the United States) and where employee protection and benefits legislation is greater (p.498)(see also Brewster, 1995 at p.5).

The preferred degree of government intervention into organisational compensation depends on one's ideology. Lawler (1990:273) discusses the role of government in a normative way, arguing that 'laws can be used to mediate or prohibit certain pay practices as well as to encourage or discourage them'. He favours minimal government interference in that 'most organisations are in the best position to decide which pay system is best for them'. Lawler does not therefore support legislation (in the United States) to encourage pay-for-performance, profit-sharing schemes, gain-sharing or comparable worth. However, were legislation to be passed on comparable worth, he holds the view that both job-based and skill-based pay systems should be permitted (p.279). It is therefore interesting to compare the British experience where Smith (1992:170) records that successive post-war UK Conservative and Labour Governments have had incomes policies starting with restraint policies in the 1940s, 'official and unofficial policies' in the 1960s, 1970s and 1980s and Profit-related Pay introduced in 1987 and refined in the 1991 Budget. It appears British Governments believed that intervening in micro-policies would lead to enhanced corporate performance. Nevertheless, in analysing the effects of incomes policies in the Nordic countries, Elvander (1990:21) argues that to be successful, these instruments must be 'accompanied by a centralised bargaining system upheld by a few strong central organisations'.

Obviously the role of the state in compensation is much more complex than can be adequately covered here. Adams (1992:517) sees governments as 'dominant actors' in the industrial relations system, and so we should examine their motives, and no longer accept that they always act in the public interest. At the same time, we should not assume that employers take a neutral stance — they obviously attempt to influence governments through lobbying and arguing compensation legal cases (Milkovich & Newman, 1996).

Unions and Compensation

We turn now to selected literature on the effect of the union presence on compensation systems and long-enduring issues such as managerial prerogative. While Storey (1983:98) argues that there had been no 'full-length British academic study of the phenomenon' until his work, US comment goes back well before that. Myers (1976:26) asserts that since the 1790s in the United States, unions have put 'increasing pressure and control' over the level and practice of compensation. Not surprisingly then, Milkovich (1988:281) states that the impact of unions on 'the various aspects of compensation strategy (level, mix, hierarchy, basis for increases, administrative procedure) has a substantial research base'.

Balkin (1989) reviewed the US research on the way unions influence pay policy in organisations, and suggested that while plenty of research existed on the way unions affect pay levels, fewer studies had considered the impact on the form and administration of pay and the use of pay incentives. Balkin argues that unions have had 'a broad impact on the determination of pay policy' (p.299), pay policy here being defined as (1) average pay level, (2) pay form (i.e. proportion of salary, benefits and incentives), (3) pay structure (hierarchy of pay rates/levels), and (4) the systems for administration of rises. His view is that when unions are not present, management uses the local labour market rates for industrial employees via surveys and then chooses what to pay in relation to the market. By contrast, pay policies in unionised settings have been incorporated in bilateral agreements. Unions also indirectly affect non-union firms by threats of unionisation (p.301). There is much evidence of union impact in forcing wage levels and employee benefits above the levels of non-union firms (p.301). American evidence suggests that in union firms, a bigger percentage of total compensation will be devoted to employee benefits (p.302). Unions also seek uniform pay rates across establishments and single rates for each job class; may prefer seniority-based pay and smaller differentials between job classes in an organisation; oppose merit reviews and individual incentive plans; and attempt to obtain promotion by seniority. American unions have taken different positions on group incentives and gain-sharing schemes. Balkin's general conclusion is that through collective bargaining, unions have been able to achieve pay levels, forms and structures that are more 'in line with average workers' preferences' (p.304). These conclusions for the United States were supported by Milkovich and Newman (1996), but union interest in cost of living clauses has decreased in recent years. In addition, unions were grappling with two-tier agreements.

The influence of unions on compensation systems 'has recently begun to be integrated into models of strategic human resource management' (Butler, Ferris & Napier, 1991:123). Unions are, of course, in turn affected by external conditions. The presence of unions in a plant constrains the employer because the conditions of employment have to be negotiated with a third party. Milkovich and Boudreau (1991) comment that the union impact on pay strategies go beyond the unionised firm; non-organisations may attempt to remain union-free and adjust rates accordingly or even relocate plants (p.46). Employers may also have a definite HRM strategy to minimise, if not eliminate, the union role. The threat of unions may force employers to improve compensation and benefits (p.447).

Earlier, Henderson (1979) argued that over the years, various American unions have been significant in obtaining improvements in wages, time off with pay, income security and a better quality of work life (p.105). He noted (p.117) that historically, unions have been suspicious of job evaluation schemes and incentive productivity-oriented pay schemes, but that a 'bonus contingent on productivity' may be becoming more acceptable (pp.123–4). There are some differences in the literature, however, as to what the impact on compensation levels might be. Gomez-Mejia and Balkin (1992) believe unions in the United States can generate wage levels between 10 and 20 per cent higher than non-union organisations (somewhat higher than the 8.9–12.4 per cent estimated by Jarrell & Stanley [1990]), a higher rate being apparent in recessionary times (p.325). Furthermore, the union effect is not even across the economy: results are higher in the truck driving and skilled construction trades (Gomez-Mejia & Balkin 1992). American unions have been particularly responsive to the needs of the older and less mobile employee. Defined benefit retirement plans are more likely than the defined contribution plans of non-union companies. Retirement benefits are inclined to be higher and health insurance more frequent and generous, in union firms (Gomez-Mejia & Balkin, 1992:327). For the wage structure, American unions prefer pay uniformity across establishments and industries, single rates for a job class, automatic pay progression and a 'flatter' hierarchy of rates (p.328). They usually oppose merit pay and individual wage incentive plans because they rely on supervisors' subjective judgements and can be divisive among work teams. More recently, unions have been more sympathetic towards group-based, gain-sharing and profit-sharing plans (p.329). Nevertheless, Bolle de Bal (1990:346) argues that the flexibility of wages (linking pay and performance) is usually disliked by unions in Western countries and 'erstwhile socialist countries'. This is because flexible schemes may undermine 'income security, equality of treatment, occupational equity and job security'.

Recent empirical research on unions and compensation has addressed a wide range of issues. For illustration, Belman and Voos (1993) (who list 30 articles on the relationship between union wages and union coverage) concluded that wages were positively correlated with the extent of unionisation in a local market industry such as supermarkets, but not in a national market industry such as aerospace. Ashraf (1990:446) tracked union/non-union differentials over a 15-year period in the United States and found that 'nonwhites, blue-collar workers, and less-educated workers gain relatively more from unions than those who are white, white-collar, and better educated'. However, Flanagan (1990:301) is of the opinion that although union wage effects are one of the most frequently researched areas of economics, 'very rarely is there a discussion of why these measurements are of interest from the perspective of human resource management'. It would be helpful, for example, to know why a union in one sector produces a higher relative effect in one sector than in another (p.302). Not that these are easy figures to calculate; Jacoby and Mitchell (1988:215) emphasise that the economic impact of unions is better measured by the proportion of union wages in the total payrolls (or total compensation covered by collective bargains) rather than by the percentage of unionised employees in the workforce.

A recent study by Ng and Maki (1994) examined the influence of unions on 37 HRM practices in 356 US manufacturing firms. Their conclusion was that there was no difference in the use of the classification method or the points system between union and non-union firms. But non-union firms are more likely to use subjective ranking methods, individual incentive schemes, and profit-sharing plans. Unions were less opposed to group pay incentive schemes and gain-sharing. The results suggested that unions were not opposed to pay-for-performance per se, but only when it created 'rivalry and increased pay differentials among individual employees' (p.134).

As Cascio (1991:419) indicates, it is difficult to get a definitive measurement on unions' impact on compensation systems without comparing identical organisations with and without unions. 'Any wage differences then could be attributed to unionization'. Unfortunately, this scenario is unlikely. It is also not valid to compare two companies in the same industry with varying rates of unionisation and then argue that compensation differences are due to the degree of unionisation. The reasons are, first, that where the union density is low in an industry, it may lack the power to shut down the whole industry compared with one with higher membership levels. Secondly, non-union firms may actually grant concessions to avoid unionisation. In that case, the influence of the union is underestimated (p.419). Jackson and Schuler (1995) also agree that it is too simplistic to compare union and non-union firms. One has also to analyse whether union-management relations are 'adversarial or cooperative' (p.249). The added difficulty of research assessing the effect over time of unions on compensation is that unions and industrial relations systems are subject to a changing environment. Kochan and Barocci's (1985:496) view is that 'industrial systems are relatively slow to adapt to changing environments and often continue to follow policies and practices long after environment changes render them obsolete'.

While one can agree that union presence does have an effect on compensation systems, its influence and outcomes may be complicated to assess. Union involvement may be evident in job classification, employee benefits and incentive plan committees as well as regular wage negotiating committees or at industrial tribunals (Hills, Bergmann & Scarpello, 1994). But union presence and recognition for bargaining purposes may, of course, depend in the first place on national legislation (Brewster, 1995), which may also affect 'almost all aspects of HRM' (Jackson & Schuler, 1995:248).

Legislation and Compensation

One final external factor which is subject to constant change is the legislation affecting compensation systems. The legal–political context has often been taken as a given in HRM research, and organisations are assumed to adjust their compensation systems to conform with laws and regulations (Masters, 1987:358). However, Masters (1987) believes this is an unfortunate view because it probably does not conform to the reality. First, organisations often devote 'substantial resources' to influencing the shape of laws and regulations affecting them (p.358). Second, because laws impacting on employment may be federal, state or local, employers may be subject to a range of laws, regulations and court decisions which are inconsistent and ambiguous (p.361).

Fisher, Schoenfeldt and Shaw (1990:486) state that the increase in American Government regulations 'has made legal constraints a major factor in planning and administering a compensation system' and Milkovich and Newman (1996) advocate that compensation techniques and their outcomes must all be designed to comply with the law. Laws and regulations can serve as both constraints and objectives and the MNE will face different legislation in each country in which it operates. Some legislation allows an organisation 'to interpret the changes', whereas for others, the law is mandatory and requires implementation (Butler, Ferris & Napier, 1991:123). Tax changes may be in the former category, whereas minimum wage laws are clean-cut. Tax changes may affect the attractiveness of any compensation packages, especially at executive levels.

Taxes can affect three areas of compensation strategy: (1) income, (2) benefits, and (3) capital gains (Gomez-Mejia & Balkin, 1992:334). Levels of income tax may affect employees' preferences for current or deferred salary. As will be discussed in the next section, tax may affect the design of benefits such as health and life insurance and retirement schemes. For example, Dessler (1991:344) states that the US Tax Reform Act of 1986 had the effect of increasing the employee benefits of rank and file employees while 'reducing tax-favoured benefits' of the highly paid. Taxes may also influence the attraction of using stock ownership as an incentive for various levels of staff.

Legislation constrains the actions of employers by imposing financial penalties for non-compliance. World-wide codes discourage policies such as pay discrimination, requiring instead the standard of 'equal pay for equal work' and 'equal pay for work of comparable worth'. Both of these standards have been open to interpretation in the courts, particularly in the United States. A number of countries have comparable worth (or pay equity) legislation to ensure that jobs of similar skill levels, responsibility and working conditions are paid at a similar level, normally determined by job evaluation (Gomez-Mejia & Balkin, 1992).

Despite the 'increasing array of legal issues' facing HRM (Galbraith & Lawler, 1993:235), Beer et al. (1984) commented that many European countries had more sweeping laws affecting HRM than those of the United States, although many areas subject to legislation in Europe were incorporated in collective bargaining in the United States (p.44–5). However, the impact of the law on compensation systems may depend on the extent to which it is enforced. For example, Strauss (1992:29) posits that the Reagan administration 'was marked by a considerable slackening in the rigour' with which the executive branch enforced employment legislation. Nevertheless, this did not lead to a decrease in legislation — quite the reverse.

What this selection of textbook literature does not show is how the interpretation of new regulations and laws really affects compensation strategy at business unit level. Neither do we know what impact new employment legislation has on the overall performance of a firm. Most of the discussion is at a macro level. While national legislation can set socially desirable minimum standards, practitioners analyse the labour market in terms of freedom and external interference. For example, McIlwee (1986:228) refers to the way 'efficient labour markets' are 'impaired' by the employment legislation in the UK, which has prevented employers shedding labour quickly, increased the cost of termination and redundancy, and increased the cost of pensions.

In the context of this thesis, what emerges is evidence and convincing argument that all aspects of the external environment discussed do have some impact on compensation design. The various changes in compensation systems over the years appear to have been part responses to environmental pressures. As mentioned earlier, we know little about the way the processing of this information occurs in the organisation. Moreover, it would be difficult to quantify and prioritise the effect of each element. The main constraint would be seem to be the law, in that the employer does not have, in theory, the choice whether to observe it or not. The reality is that employers will breach regulations and laws at times because of ignorance, ambiguity or lack of executive enforcement. The main conceptual problems, as noted earlier, are isolating the elements in the environment which influence compensation, classifying the environment, and identifying which parts of the compensation system are most affected. There is an impression of a large research need here.

Employee Benefits and the External Environment

The discussion so far in this chapter has been on the external influences on compensation in general. This section focuses specifically on employee benefits and the external environment. Employee benefits have been defined as:

> that part of the total compensation package other than pay for the time worked, provided to employees in whole or in part by employee payments, e.g. life insurance, pension, workers' compensation, vacation' (Milkovich & Newman, 1984:363).

They can be categorised as those which are 'legally required social insurance programmes', 'private insurance and retirement plans', 'payments for time not worked', 'extra cash payments', and 'employee services and perquisites' (Broderick & Gerhart, 1997:147).

The standard texts on HRM tend to concentrate on the growth of benefits, their purpose in the compensation system, their components, and their planning, design and administration. Unfortunately, the empirical research on benefits has not matched their growth internationally. In fact, some authors suggest that benefits are probably the least-researched area of compensation (Milkovich & Newman, 1996). Complete answers are awaited on how employee benefits are linked to organisational strategy and performance, and the effect of benefits on employee attraction, motivation and retention. However, there have been recent attempts to rectify this situation (see, for example, Broderick & Gerhart, 1997). Research on the effect of the general external environment on employee benefits design is not plentiful although separate elements of the environment such as the influence of unions on benefits have received attention (see, for example, Freeman, 1981).

Taking government and legislation first, there is clearly an interaction between government philosophy and legislation that may affect the extent to which benefits are mandatory or optional, and the allocation of the benefits' cost among government, employer and employee. In the United States, for example, employers are required to contribute to the mandatory programmes of Social Security, unemployment compensation and workers' compensation (Bergmann, Scarpello & Hills, 1998). By comparison, while Australian employers have to pay premiums for workers' compensation (insurance) under state legislation, the Australian Federal Government pays unemployment allowances, and pensions for age, invalidity, deserted wives, supporting parents and widowhood; in addition, under federal law, superannuation (pension) costs are compulsorily imposed on employers and employees as a fixed percentage of pay (Kramar, McGraw & Schuler, 1997). Interestingly, no unemployment benefit is payable in Singapore. Apart from these basic minimum requirements, governments may also legislate for leave for particular purposes such as the US Family Leave (Milkovich & Boudreau, 1997), long service leave in some states in Australia, and sick leave (under the Employment Act in Singapore) (Chew Soon Beng & Lim Siew Ngoh, 1996). Paid time off for jury service may be offered where a country has juries as part of the legal system; similarly, a period of national military service requiring leave may be compulsory during a working life (Bergmann, Scarpello & Hills, 1998).

Government economic policy has been cited as a cause for growth in employee benefits. Incomes and price controls during the second World War and the Korean War led to an increase in the level and range of benefits in the United States to satisfy employee needs (Milkovich & Newman, 1996). Alpert (1987:12) analysed employee benefits using time-series data and economic modelling and concluded that income, economies of scale of group purchase, worker education, worker health, the structure of the economy and wage and price controls 'have all had positive and often statistically significant effects on fringe benefit expenditures'. Further, he recorded that benefits acted in accord with business cycles, 'falling relative to wages in down cycles and rising relative to wages in upswings' (p.12). As employers might be reluctant to reduce wages in a depressed economy, firms appear to reduce benefits instead, generating possible union pressure. Along with running the economy, government's role in taxation has affected benefit provision. Some benefits have been designed to avoid federal and state personal income taxes, although legislation may impose taxes on benefits either on the employee or the employer, causing a change in benefit strategy (Milkovich & Newman, 1996). There is evidence, for example, that the Fringe Benefits Tax introduced in Australia in 1986 had a significant effect on executive compensation packages as it was imposed on the employer rather than the employee (O'Neill & Clark, 1990).

Gomez-Mejia and Balkin, (1992:326) assert that through their collective bargaining unions have been seen as being at the 'cutting edge' of employee benefits in the United States. They cite empirical evidence to show that unionised employers are more likely to provide better retirement benefits, health insurance, life and accident insurance, and vacation and holiday pay (Freeman, 1981; Solnick, 1978; Allen & Clark, 1986; Fosu, 1983; Rossiter & Taylor, 1982).

The changing nature of society and developed economies is another major external influence on employee benefits. The world of contingency and portfolio workers (Handy, 1995) 'poses a new set of questions for benefits administrators' (Milkovich & Newman, 1996:476). The ageing societies of the industrialised countries may have an impact on health and pension costs; future employment growth, mainly through small business (which traditionally has a narrower range of benefits), may influence the relationship between employer attraction and benefits (Broderick & Gerhart, 1997). The increased participation of women in the labour force has led to increased child-care assistance, flexitime policies (Kossek, 1987) and spouse relocation assistance (Moore, 1981).

It is self-evident that national cultural differences will have an impact on employee benefits. A basic example is the designation by governments of different religious public holidays. Empirically, however, a recent study by Schuler and Rogovsky (1998) is one of the few attempts to link national culture to the provision of employee benefits. Using secondary data, they found that the frequency of flexible benefit plans, workplace child-care, and maternity leave programmes was associated with the Masculinity and Femininity dimensions of national culture as denoted by Hofstede (1980). Although this is an important study, it is unfortunate that secondary data for other Asian countries, in addition to those given for Japan and Korea, were not available.

One interesting question for this project is why employee benefits in industrialised countries originated as they did, and how they change over time. One determinant appears to be government philosophy, which reflects how much of employees' social and economic need fulfilment is provided by government infrastructure, and how much by the employer. One might question whether developing nations follow the lead of more advanced ones in the provision of services and if so, why? Are there any cultural factors that should be addressed? For example, are employee benefits perceived in different national cultures in the same way? And do they have a different impact on employee behaviour?

The conclusion from this short review is that the literature suggests that social, demographic, economic, government philosophy, unions and collective bargaining, and particularly legal factors are likely to have a marked effect on employee benefit design, and that while in the past benefits were given in a rather piecemeal fashion, the relative expense of benefits in developed countries is possibly causing more careful planning where they are concerned. As with compensation generally, the MNE will find different external factors affecting benefits in each location of operation. The choice then will not just be what benefits to pay, but also which benefits should be paid on a company-wide basis and which tailored to each country's subsidiaries for all levels of employee.

Conclusion

In this chapter, we have selected the literature that considers the main internal and external influences on domestic compensation design. The importance of the external environment is acknowledged in all basic HRM texts, but environmental changes may not necessarily be reflected in HRM policy changes. The external environment is a complex, interrelated and dynamic phenomenon, affects organisations in different ways and might, in turn, be affected by the organisation. The control of domestic subsidiaries and divisions has similar properties to those in the management of an MNE.

The prescriptive literature advocates the linking of strategic HRM to corporate objectives while acknowledging the complicated reality of the process of formulation and implementation of corporate strategy. With the constraints of the external environment perhaps under-estimated, recent work has advocated the principle of 'choice' for HRM strategies, policies and practices. The choice results in organisations using different practices at various levels of the company, different practices perhaps operating in divisions or plants because of varying life cycles or corporate diversification strategies. The external environment sets the context for the choice as it is not unlimited.

As we have shown, the linking of HRM strategy to corporate strategy flows through to the compensation strategy literature as well, although views differ as to how important the compensation system is in this. The vast number of compensation choices is influenced by internal and external environments. Taking the contingency approach, however, there is a belief that the better the fit between the corporate and business unit strategies and the compensation system, the greater the contribution of the system to organisational performance. This has been specifically examined in the context of the organisational and product life cycle, where the composition of compensation can be adapted to support different strategies.

The various compensation systems likely to be operating in SBUs in a diversified company have not received much attention, particularly how the distinction between corporate and SBU performance bonuses is made. Recent research based on limited data suggests that if compensation strategies support diversification strategies, greater performance results. The options for choice in linking compensation to corporate strategy have been well documented, but this does not necessarily mean corporate strategy *causes* a particular compensation system. The reality is that compensation may be a pattern of elements rather than individual elements, and the system may not be related to corporate strategy because of directors' preferences, or (as institutional theory posits), because of copying of the strategies of other organisations, or conforming with laws and regulations (Jackson & Schuler, 1995). Furthermore, corporate strategies may not be clear in any case. The additional complication is that compensation decisions are affected by internal strategies such as HRM strategies, organisational size, structure, technology, culture, assumptions about motivation and incentives, organisational performance, and the type of employees involved. External influences particularly affecting compensation, according to the literature, include the volatility of the environment, legislation, government regulations, union presence, product and labour markets, competition, social values, the economy, and incomes policies.

We noted that the research on the external environment and compensation had concentrated on specific elements of the environment, and that one cannot ignore the sub–divisions of these elements — such as the introduction of a national incomes policy by a government, as well as its legislative, taxation and minimum standards role. We also found that societal features were believed to affect internal equity, whereas the economy not only affected levels of pay but, in turn, employee expectations and wage demands of unions. These two illustrations show how many elements of the external environment interrelate, making their research rather complicated. From the literature, it is evident that we are still some way from 'a grand theory of compensation' that would explain how each environmental element affects each feature of a compensation system, especially over time (Gerhart, Minkoff & Olsen, 1995:530).

CHAPTER THREE

COMPENSATION AND THE MULTINATIONAL ENTERPRISE

MNE Compensation Strategy

The more complex nature of the external environment facing the MNE was acknowledged in the early literature. In the 1960s, Farmer and Richman (1965) suggested the MNE faced three sets of environmental constraints: (1) local constraints, as a result of which home country operations may still significantly affect an overseas company, (2) the environment of the host country, and (3) international constraints, which may differ between host and home country. These sets may, of course, change at various rates. More recently, Phatak (1992:8) writes of 'the international environment' being 'the total world environment' and 'the sum total of environments of every nation in which the company has its foreign affiliates'. But despite the uniqueness of the domestic and foreign environments, 'similar factors can be used in their assessment' (Asheghian & Ebrahimi, 1990:205). The international environment 'is created from the interaction between the domestic and the foreign environments' (p.205) and comprises of 'a set of diverse economic, legal, and political forces'. Ball and McCulloch (1990:16) support the classifications of Asheghian and Ebrahimi (1990), but assert that foreign environment forces operate differently from domestic ones in that elements may be of a different force value (e.g. degree of political force), incur changes which are more difficult to assess, and experience different 'types and degrees of interaction' of the elements. Moreover, there are varying 'density of linkages' between 'suppliers, producers, regulators, and customers and others' which an MNE faces from country to country (Nohria & Ghoshal, 1997: 199); the greater the complexity of each local environment, the greater the managerial choices for affiliate autonomy, integration and formalisation (pp.97–101).

In comparison with the compensation strategy of the domestic firm, the MNE has some distinctive characteristics (Dunning, 1993). These particularly centre on the 'innovating capacity' of MNEs in free market economies, with a resulting effect on local skills and employment (p.350). The effects are not always positive, especially when capital-intensive MNE production methods replace local labour-intensive industry. The MNE production system may also be 'more locationally footloose than uninational activity' (p.351). As nations like Singapore, Hong Kong, Taiwan, South Korea have become advanced, MNEs have resited labour intensive operations to less developed nations. The MNE also functions in international labour markets for managerial, professional and technical staff. These people may be recruited from within or outside the MNE. Furthermore, some MNEs transport unskilled labour (such as construction workers) between nations to work on projects, thus 'performing an arbitrage function which the international labour market is unable to do' (p.351). Dunning continues by noting that MNEs have greater experience and knowledge of employee compensation and conditions across the world and so can implement 'best' HRM practices to improve productivity (p.351). The MNE is likely to have greater bargaining power with unions than the local firm, as local union officials will lack knowledge of the 'economic strengths' of the subsidiary or whole corporation (p.352). Finally, the interaction between an MNE affiliate and the host government may be different from that of a local firm, in that the MNE has more options to resite facilities should laws, political or union environment no longer appear attractive to the MNE.

For the individual MNE, at a more macro level, the basic compensation strategy questions are to what extent compensation systems must be adapted to cope with 'diverse cultural contingencies', and whether the effectiveness of different compensation systems varies from nation to nation (Gomez-Mejia & Welbourne, 1991:29). There seems to be a convergence of pay systems across the world, perhaps through imitation or use of consultants. However, if we accept that compensation systems should be designed to facilitate the corporate objectives of the MNE, then one would expect the systems to be adjusted to suit different cultures (p.30). The other complication is that compensation in the subsidiary has to be congruent with other HRM practices in the affiliate and at corporate level, and with the business unit life cycle as well as the cross-national external environment (Milliman, Von Glinow & Nathan, 1991). In providing a useful list of the 'domestic' and 'foreign' organisation environments (both internal and external) that influence international compensation, Harvey (1993a:58) similarly speaks of the 'fit' and 'flexibility' of global compensation issues associated with MNEs. 'Flexibility' for him is the ability of the compensation system to accommodate a variety of expatriate and third country national (TCN) managerial candidates, and different economic and cultural contexts. The 'consistency' of global compensation for expatriates and TCNs should be within the MNE and between affiliates, as managers have to be treated equitably (p.59). He acknowledges that while internal organisational issues are important, the variation in external environments is usually the most significant determinant (p.59).

The distinction between *formulating* and *implementing* compensation strategy at corporate and business unit levels has been made by Miller, Beechler, Bhatt and Nath, (1986), but is not often recognised in the MNE compensation literature. Lei, Slocum and Slater (1990) used a quadrant of global/multi-domestic strategy and hierarchy/performance reward systems to show the relationship between strategy and rewards in MNEs, and identified MNEs which appeared to have the 'best fit' (p.33). On the same strategy/compensation theme, a study of 126 firms based in Japan, UK and United States by Roth and Ricks (1994:107) found that there was support for a hypothesis that for companies competing in a global industry, a 'dispersed goal configuration' (the scope or breadth of the goals of the organisation) was 'positively associated with multiple criteria for top management rewards/compensation'. Apart from these studies, much of the international HRM discussion of compensation (with exceptions such as Welch, 1994, and Bonache & Fernández, 1997) ignores the corporate strategic element.

From our consideration so far, we can initially agree with Kressler's (1971–72:398) proposition that it is difficult to set up 'a standardized world-wide compensation policy'. The reasons for this include:

> Obtaining reliable local national compensation data; extending stock purchase arrangements to employees outside the...[home nation]; off-shore/split compensation payments to local national executives; taxation, benefits/TCN pensions; local legislation changes in employment and benefit laws (Dowling,1989:68).

These issues require HRM practitioners to have 'global skills' (Brandt, 1991) because although some professionals see ILO standards as having an increasing influence, the different legal, political and tax situations in each country will necessitate tailor-made compensation and benefits (Overman, 1989).

Unfortunately, much of the research on MNE compensation systems focuses on the managerial expatriate level and ignores the administrative, clerical and industrial (blue collar) skilled, semi-skilled and unskilled occupations — perhaps because these are mainly determined locally, are more subject to local institutions (Ferner, 1997), are located in the host nation only, and are therefore of less interest to head office. They are also cheaper, and usually linked to local labour markets rather than to world-wide corporation rates. Generalisations are difficult, however, because the degree of local regulation may vary. According to Ferner (1997:22), the literature suggests that wage determination and hours of work are more likely to reflect the local environment, whereas payment systems are 'less likely to be regulated by the local systems' and are therefore more inclined to reflect the parent MNE preferences. With that reservation in mind, Dowling, Welch and Schuler (1999:182) argue that international compensation should have four objectives: (1) consistency with 'the overall strategy, structure, and business needs' of the MNE, (2) attraction and retention of employees in key MNE areas, (3) facilitation of the 'transfer of international employees in the most cost-effective manner', and (4) 'equity and ease of administration'. Their main advice for the MNE (from an earlier edition of their text) was to 'match compensation policies with [its] staffing policies and general HRM philosophies' (Dowling, Schuler & Welch, 1994:169). An ethnocentric staffing policy may therefore need an appropriate compensation response.

Discussion of MNE rewards is also confined to the expatriate and monetary compensation in Phatak (1992) and Cascio (1992), whereas Pucik (1992) argues that MNEs should not only consider the short-term monetary reward but also the 'global career opportunities' of local host nation staff (p.72).

The Employment Effects of the MNE

The compensation strategy of a major MNE with a large workforce in a host country will clearly have implications for the local economy and labour market. Dunning (1993) records that by the end of 1990, the International Labour Organisation (ILO) had published 49 reports of the employment effects of MNEs on host nations, in addition to books and monographs on a wide range of HRM practices. We will select only a very small sample of this work for illustration of the main issues.

The initial problem with any analysis of MNE employment effects is methodological: comparing the level of compensation across jobs, sectors and countries, and establishing the exchange rate (Dunning, 1993). As a generalisation, there is 'considerable evidence' that MNE subsidiaries pay more than locally owned competitors, although the difference is not as great as often supposed (p.375). The reason may be that the MNE is more capital-intensive, and thus achieves higher productivity. The affiliate may also be larger than local establishments, and feel obligated to provide above-average compensation to attract new recruits. There is some evidence that, relative to their competitors, MNEs pay more in technology-intensive sectors and in sectors producing 'consumer goods with a high income elasticity of demand' (p.375). Likewise, compensation for skilled professionals and managerial staffs has usually been higher than that of local companies.

To take some individual country ILO studies, Stopford (1979:47) asserts that MNEs located in the UK are likely to be seen as compensation pace–setters because of their high profile, and so 'will be treated as such'. In the 1960s, of the first 13 major productivity bargaining agreements negotiated, 8 were by MNEs. One view was that productivity bargains and good fringe benefits would prevent unionisation of the workforce (p.48). MNEs tended to prefer independence of operation and were less likely to join employer associations for that reason. Iyanda and Bello (1979) found that in Nigeria employees felt more secure in MNEs than they did in indigenous firms, the latter being small, owner-managed operations. Nevertheless, host country managers felt excluded from the secrets of the MNE 'expatriate clique' (p.12). The MNEs and local companies provided different ranges of fringe benefits, with MNE expatriate managers enjoying better housing and related benefits than those of Nigerian MNE managers. The conclusion of Iyanda and Bello was that MNEs in Nigeria employed people with higher skill levels than did local firms, paid higher wages and fringe benefits, trained more, and offered greater job security than the local companies. The situation in the Philippines in the 1970s was not so clear–cut. Tanchoco-Subido (1979) found that MNEs paid higher wages in 14 industries but lower rates in 6 others. In the manufacturing industry, the MNEs were generally providing greater compensation were than Philippino companies. However, Tanchoco-Subido (1979) did find evidence of firms with foreign equity paying below the minimum wage for industrial and agricultural workers (p.70).

Gunter's (1982) overview for the ILO of MNE social policy confirms previous studies, which found that MNEs give better compensation in general than local firms; he suggests, however, that the practice of some MNEs of transferring home–country practices into host nations has created problems. Examples are wage systems new to the host country and demands by local staff for specific employee benefits that are foreign to the MNE (p.24). A 1976 ILO study of wages and working conditions in MNEs mentions that whether an MNE pays higher wages may depend on how extensive collective bargaining is in local companies and MNE affiliates (p.3). If both local and MNE companies are subject to collective agreements, 'the pressures for parity in wage levels may be strong' (p.3). This is particularly so if there are national agreements that impact on conditions at a local level. There is evidence that MNEs do have to adjust to the local industrial scene for staff lower in the hierarchy. In a 1973 paper, Gunter stated that MNEs tend to adjust to local conditions when there is local labour legislation, local industrial relations patterns and local wage levels that are in the interests of the MNE (p.7).

The differences in conditions between MNE and local firms are still attracting current interest. In a study of 261 Irish, US and other internationally owned companies operating in the Republic of Ireland, Turner, D'Art and Gunnigle (1997) concluded that there was no statistical difference between Irish and US companies on IR issues such as union recognition, union density, union influence and the presence of works councils (p.97). However, while the study has no data on pay levels, it did note that the incidence of performance-related pay in US companies was 'twice the mean average of Irish companies' (p.98). Differences were also recorded between 109 local Taiwanese and 32 US MNEs located in Taiwan in research by Lin (1997). She found partial support for a hypothesis that compensation would be 'significantly different', noting differences in the composition of compensation packages and more explicit pay policies in the US MNEs (p.62).

According to Dunning (1993), it is difficult to attribute the better conditions provided by MNEs to their multinationality per se, but it must be part of the reason (p.376). Some working practices will be part of the culture of the MNE head office. However, it is not usually in the interests of the MNE to markedly exceed local rates. Ownership may also play a part in compensation systems; Dunning emphasises that

Japanese affiliates may concentrate on 'employee-related determinants', whereas Western firms rely more on 'job-related determinants' (p.376). The composition of employee benefits may also be reflected in national origin — the Americans preferring 'monetary inducements' and profit-sharing, the Japanese favouring 'non-pecuniary incentives' (p.376). In a sense, the MNE cannot win whatever it does. Some argue that if the production systems are similar in home and host nations, then the workers should be paid the same wage. If the MNE pays less than local rates, it could be accused of exploitation. If, on the other hand, it does pay high local compensation, it can be accused of inflationary settlements or using pay levels as a method of 'buying good industrial relations' (p.376) as well as putting wage pressure on locally owned companies. These contradictions are neatly summarised by Frenkel and Royal (1996b) as the 'worker repression' (rates favourable to the MNE), 'worker incorporation' (relatively high pay) and 'mutual gains' (high pay and job satisfaction) hypotheses (pp.5–6).

Expatriate Compensation and the MNE

Bonache and Fernández (1997) state, surprisingly, that expatriate compensation is the aspect of expatriate management receiving least attention in the literature (presumably meaning the academic as opposed to the vast practitioner literature); and they are correct in noting that writings on expatriate compensation have generally tended to under-emphasise links with the strategic goals of the MNE.

A large MNE subsidiary is likely to employ both host country (HCNs) and expatriate (PCNs) managers working together, possibly with third country nationals (TCNs). The MNEs themselves take many structural forms, and the length of expatriate assignments may vary enormously. The complexity is not just in setting up systems to achieve international compensation objectives, but also in accommodating the three categories of employees and 'territorial differences ... in a manageable company-wide policy' (Young, 1973:118). Expatriates are expensive and compensation has to be tailored 'cross-culturally' to 'meet the specific needs of ... managers in MNEs' overseas operations' (Hodgetts & Luthans, 1993a:58). This is complicated because 'salary levels for the same job differ among countries in which an MNC operates'

(Cascio, 1992:642) and because of external environmental changes such as national taxation policies and exchanges rates (Dowling & Welch, 1988).

There are at least three possible policy options for MNE PCN and TCN compensation (Dowling, Schuler & Welch, 1994). The first — the home-based policy — 'links the base salary for expatriates and TCNs to the salary structure of the relevant home country' (p.150). This keeps PCN and TCN rewards on a par with the home nation staff, and enables PCNs and TCNs to be repatriated to the home country without salary complications. Against these advantages must be weighed the inequity of PCNs and TCNs doing the same job as HCNs but being paid differently. A second approach is the host-based policy, where 'the base salary for international transfer is linked to the salary structure in the host country', but with a number of supplements based on the home nation compensation system (pp.150–1). This may still result in different packages for PCNs and TCNs. A third approach is the 'region-based policy' under which expatriates are paid at lower levels of compensation if they are working in regions near their home country than they would be paid in far-flung regions (p.151). The advantage for the MNE is that it could save money if the home country is a high-paying one.

The home-based plan for predefined and temporary expatriate assignments can be advocated where international employees will eventually go home, where 'the number of different nationalities in any one host location is relatively low', and where expatriates are numerous 'in higher-level host location jobs' (Anderson, 1990:29). Host-based compensation plans would be more appropriate where for the converse applies. To the home and host nation plans, Payne (1990) adds the 'modified balance sheet' and the 'international' approaches, the former being developed because the 'balance sheet' was found to be too rigid, and the latter applying to all expatriates regardless of nationality and location (p.68–9). Other terminology and variations are the 'headquarters scale plus MNC's affiliation differential', and the 'citizenship' and 'global' compensation scales of Fatehi (1997).

By the third edition of their text, Dowling, Welch & Schuler (1999:187) suggest that the two main options for expatriate compensation are the 'going rate' or 'market rate approach', and the 'balance sheet' approach — the latter being the most frequently adopted method of payment. The 'going rate' approach is an alternative term for the host-country approach where the expatriate's compensation is linked to the salary structures of the host country. There is a choice of the compensation of HCNs, 'expatriates of the same nationality', or 'expatriates of all nationalities' as the reference point (p.187). By comparison, as mentioned earlier, the 'balance sheet' approach uses the salary structure of the home country as the standard together with allowances to ensure that there is no diminution in purchasing power while on overseas assignments (p.190). Other advice on expatriate and managerial compensation comes from Rayman and Twinn (1983), who caution MNEs on using the same job evaluation scheme throughout the world because of different cultural values. In developing nations, Western systems might result in a 'distorted pattern of relativities' in those countries (p.210). Handling of differentials between steps in the hierarchy and attitude towards seniority and merit are also likely to vary (p.211). Bishko (1990) refers to the exporting of executive compensation incentive schemes in US MNEs that is occurring in some financial services companies. The objective for PCNs and TCNs is to make the incentive plan 'as US–tax effective to the employee as possible' (p.38). With the HCN, the thrust is to 'deliver as much as possible to the local national, bottom line, at no increased employer cost' (p.38).

There have been two recent studies of Australian expatriate compensation. Welch (1994), in four Melbourne-based company case studies, found all four used the Balance Sheet approach for their international assignments. Stone (1995) surveyed 20 Australian, American and British owned MNEs that administered their expatriates from Australia, and found that about three–quarters of the MNEs tied their expatriate base salaries to an Australian structure for simplicity and to facilitate re-entry to Australia. Eighteen per cent of the respondents used the host nation salary structure, and none reported organising a separate international structure. Problems of inequity, cost, and inadequate market knowledge were offered as reasons for this (p.365).

Finally, we are likely to agree with Butler, Ferris and Napier (1991:187) that 'there is little research' on a number of these issues, although the literature is replete with practical advice from practitioners on international compensation (e.g. Reynolds, 1992). This deficiency is echoed in the lack of work done on MNE HCN compensation systems.

Compensation of MNE Host Country Employees

In an American Compensation Association article, local compensation for HCNs in US MNEs was said to have been 'generally ignored' by MNE head offices until the mid-1980s (Reynolds, 1992:74). While budgets for local nationals may have been controlled or reviewed, few attempts were made to develop 'global compensation strategies' or manage HCN compensation structures. Most local compensation systems reflected their local cultures. Phatak (1992) suggests that US MNEs do not pay local nationals on the same level as PCNs or TCNs. Their package is usually linked to local conditions, including 'cultural variables', legislation and tax structures (p.199). Historically, Reynolds argues that US MNEs delegated HCNs' compensation to local management, but with some nations now paying more than US rates, head office interest has increased.

The literature on the rationale for particular MNE subsidiary HCN compensation policies is scarce, as most interest has been in the extent of 'transferability' of compensation principles from other cultures and comparative HRM pieces using survey techniques. However, for the purposes of this thesis, there are a number of useful ILO reports on MNE compensation of HCNs, even if they are somewhat dated and lacking in theoretical underpinning.

An early one of these was an ILO (1977b) report on the labour practices of six US-based MNEs in the metal trades; the report noted that the general policy on compensation in the host country was to provide compensation that was 'as good or better' than that given by organisations in comparable industries (p.57). Caterpillar's policies were designed to 'attract and retain the best qualified employees' (p.57). The essence was to compensate local people fairly according to their contribution and 'the framework of existing practices'. General Motors had a goal of being 'in the forefront' in compensation, and it therefore monitored the practices of industrial leaders. Ford Motors similarly had a policy of offering 'competitive' conditions in its localities (p.57).

There were three main determinants of compensation packages in the affiliates of the MNEs: collective bargaining, the legal environment and 'prevailing local practice' (p.57). For example, International Harvester quoted the influence of the local wage rates and conditions on the collective bargaining process and government regulations as being the major determining factors in its packages (p.58). International metal worker unions also argued that the high levels of unionisation in the home as well as the host nation affected the outcome. However, metal unions surveyed in various countries 'were nearly all unanimous' that the compensation practices of the MNE subsidiaries did not differ from local conditions as a result of the multinational character of those companies (p.67). For example, Australian unions saw no differences in compensation in MNEs, and believed that what variations there were, could have been due to 'historical practices, arbitration awards and legislation' (p.68).

In 1991, multinational banks reported to the ILO that the main influences on compensation in host countries were (1) the policies of other banks operating in the same nation, (2) any legislated minimum levels, (3) the provisions of collective agreements which may have been negotiated at national level for the banking industry, (4) sectoral, company or local collective agreements, and (5) any custom or practice related to banking (ILO, 1991a:93). The general HR policy of many of the large banks was determined by their head offices, which recommended overseas compensation systems and levels to attract and retain good local staff. However, inevitably the overseas branches and subsidiaries had to relate to the local environment and 'the large banks generally allow considerable latitude to managers of overseas offices' to design compensation systems that conformed to the local environment (p.93). For example, the UK owned Midland Bank had a policy of comparing its locally paid compensation with 'seven designated foreign banks and two leading local banks', and then establishing job grades and salary scales. It attempted to be in the upper quartile compared with competitors (p.94). The Union Bank of Switzerland adopted similar policies, with all staff salaries being reviewed annually. In India, multinational banks compared themselves with local publicly owned banks whose rates were set by the government after consultation with staff. In other nations such as Argentina, Finland, Indonesia, Norway, and Switzerland, the MNE bank had normally to follow national agreements for the banking sector, but there were examples of MNEs deciding to remain outside these national agreements. In Austria, Greece and France, the banking national agreement specified the grades and salary scales to be observed. The ILO (1991) also recorded that some multinational banks operating in Canada used the Hay system for evaluating clerical jobs, but a job evaluation system used by a Canadian affiliate in Japan had to be adapted to local conditions (p.96).

An earlier study of labour practices of MNEs in the textile, clothing, and footwear industries found surveyed MNEs giving similar answers to those of the banks (ILO, 1984). The companies had to follow any national agreement or legislation of the host nation, although in some MNEs, 'certain wage categories were determined at headquarters,' while others followed 'a totally independent wage policy' (p.93). For instance, the Rhone-Poulenc Textile company is quoted as having no 'homogeneous wage policy' for the whole MNE, preferring to operate separate policies for each affiliate according to its financial capability (p.94). The composition of the compensation systems usually included a basic wage, allowances, benefits and additional payments.

MNEs in the petroleum industry also designed compensation to conform with host nation legislation, collective agreements and other local conditions (ILO,1977a:58). Exxon's policy was quoted as following the pay levels of the oil industry in the host nation. Where there was no other oil operation, the company would follow the scale of wages and benefits of large industry in the country. If there were no patterns to emulate, then the company would initiate one. Levels of pay and benefits were local labour market driven, although the Exxon Corporation encouraged 'consistency amongst affiliates as to salary systems especially for professional and management personnel' (p.58). Shell International replied that their international operations were conducted 'within national frameworks' which influenced general policies on compensation. However, with international and expatriate staff, head office tried to establish 'a degree of parity between expatriates working in different countries', with general conditions of service that took into account separation from the home nation (p.58). The report went on to give examples of these principles. For example, Shell UK determined its compensation according to the local employment market, and would follow local practices in countries such as France, where there was a national oil industry agreement based on qualifications with special increments for efficiency (p.63).

While these ILO reports mainly describe the compensation position without attempting to place the results in a conceptual framework, they do highlight the flexibility of MNEs in designing their compensation in the various countries in which they operate. They are clearly bound by any legislation, collective agreements and other local features. There is some evidence of head offices in large MNEs attempting to achieve some parity among managerial staff and a tighter control over international and expatriate employees, whereas the local affiliate appears to have considerable autonomy. In some instances, such as banking MNEs, the subsidiary may only award merit increases in line with company practice. What the ILO reports do not highlight are the differences in tightness of the respective national labour markets. In a buyer's market, Fatehi (1997:320) argues that using the local compensation standard works well for the MNE, but in a seller's market, local pay standards are 'more problematic', needing justification from the MNE for discriminating on pay levels between countries for the same job. He refers to the practice of promoting more competent local staff to international status and scales or to home country scales as two ways around this problem.

Finally, one of the few empirical studies on HCN pay at subsidiary level is by Roth and O'Donnell (1996). Their investigation of senior executive and lower level compensation in 100 foreign subsidiaries in two industries in the United States (40 affiliates), UK (22), Canada (14), Japan (12) and Germany (12) was based on a mail questionnaire. Agency theory was used as a theoretical context. Hypotheses focused on (1) the cultural distance between market characteristics of the parent MNE and affiliate, (2) the strategic role of the subsidiary, and (3) the affiliate managers' commitment to the MNE. The mix and market position of HCN employee compensation were examined. Part of their findings were:

- The percentage of senior management's incentive-based compensation increases when a subsidiary has a lateral centralization form and its senior manager has a higher level of commitment to headquarters.['Lateral centralization form' is where the foreign subsidiary has worldwide responsibility for a specific product or product line{p.681}]

- The percentage of total incentive-based compensation paid by the subsidiary increases with the foreign subsidiary's cultural distance (Roth & O'Donnell, 1996:697)

They elaborated: the MNE affiliate might have to adapt to the host country environment in setting certain incentives for all local staff, as cultural distance was associated with pay mix. One explanation why 'lateral centralization' might have a different effect on the pay mix of senior management is that it is 'subsidiary specific'. For example, a corporate MNE policy of giving equity stocks to senior management in the subsidiaries could have more to do with some 'firm specific' reason than with the local national culture (p.698).

Researching pay mix and level is, of course, only one part of the compensation package. The handling of employee benefits in the MNE is another.

Employee Benefits and the MNE

The provision of employee benefits in the MNE raises some unique problems for the HRM function. Schemes such as pension plans, medical coverage and social security are difficult to administer in an MNE because of cultural and transportability differences (Dowling, Schuler & Welch, 1994). There are questions as to whether PCNs should continue in home country programs or transfer into host nation programs (p.162). There is also the impact of local legislation on expatriate termination benefits, which social security system to choose, 'whether benefits should be maintained on a home-country or host-country basis', and the exportability of home nation programs to the affiliates (p.163). Thus, as Robock and Simmonds (1989:587) put it, the 'types and levels of benefits that are customary' can vary significantly from country to country. Individual benefits may differ, as might the proportion of the compensation bill devoted to benefits. In addition, some benefits may be imposed by legislation. An MNE may decide to take an international responsibility for items such as insurance, which would make transfer between countries easier. The expatriate workforce might also receive a different set of benefits from those of HCNs; these usually take the form of extra leave or air fares for partners and families (Hodgetts & Luthans, 1993a). Cascio (1992:644) suggests that MNEs usually administer their employee benefits on the 'best of both worlds' principle, with the expatriate receiving home country benefits where possible. Where a benefit such as disability insurance is not available, the expatriate might be incorporated into a host nation program.

The practitioner literature outlines the practical problems of MNE benefit administration. For example, Hait (1992:27) refers to the US rules on the coverage and taxation of retirement benefits for US expatriates and 'reverse expatriates' as being 'complex, confusing and, in some cases, illogical'. Woolsey (1990:55) reports the difficulty of US compensation specialists in keeping up with legal changes in the area of pensions and social security across the world, while Payne (1990:76) argues that Australian executive salaries are 'relatively low' by world standards, but offset by 'fairly high' benefits. These differences have to be factored into packages; superannuation and motor vehicles are particularly sensitive.

Again, the reports of the ILO are the main sources of data on employee benefit payment by MNEs in host nations, and mostly concentrate on the number of benefits paid by an MNE compared with those offered by local firms in a host country. For example, a 1976 ILO report on wages and conditions in MNEs quotes a 1973 survey of US owned and other MNEs operating in Spain compared with locally owned companies. This survey of 57 US MNEs, 56 other MNEs and 45 large local firms found that although the MNEs provided greater numbers of employee benefits than the local firms, the differences 'were not pronounced', as different packages of benefits were offered (p.41). Spanish companies granted disability and medical expenses more frequently than did MNEs, but the converse was the case for death benefits and accident insurance. The conclusion was that the benefits of the MNEs in Spain were, on the whole, on a par with the better Spanish employers.

Some US-based MNEs in the metal trades assessed their subsidiaries' benefits to be at least 'comparable' or 'competitive' or even better than those of locally owned companies in the host nation (ILO, 1977b: 71). This applied to MNEs such as Caterpillar, Ford, General Motors and International Harvester. All of the MNEs and their subsidiaries replied to the ILO that their employee benefits exceeded the legal minima laid down by legislation (p.76). These extra provisions included insurance, vacation and bonus pay, shorter working hours and other extra allowances. The reasons given for paying in excess of the legal requirement were collective bargains, local management decisions or as result of competition.

The extent of any provision of welfare facilities by MNEs in host nations will depend the level of infrastructure already there. An ILO (1977a) report on petroleum MNEs stated, for example, that Exxon's affiliate managers were given considerable autonomy and had often supplied health and medical facilities not only for their employees, but also to the local community (p.68). In the textile, clothing and footwear industries, the welfare and recreation facilities of MNEs in host countries were generally 'better developed' than those of local industry (ILO,1984:103). These could range from canteens and sports facilities to club houses, summer camps and company owned hospitals. The influences on social security provision in the industry were, in order of importance, (1) national legislation, (2) collective agreements (industrial, regional, national or company), and (3) MNE-specific social security plans not covered by (1) and (2) (p.103).

According to a 1985 ILO analysis, women working in MNEs in developing nations were likely to receive at least the minimum statutory benefits, but were unlikely to receive more than the minimum maternity, sick and compassionate leave (p.44). The point was made that benefits were provided to attract and retain staff without having to put up wages, and not every employee used the benefits offered — e.g. company housing or recreational facilities. Medical facilities could be granted to ensure a healthy workforce, but up to 1985, child-care in Asia was very rare, even for MNEs with a workforce of 4,000 women (p.46). The reputation of MNEs as exceeding local conditions, however, was again emphasised in a 1991 ILO study of banking MNEs, where the large banks offered 'an impressive package of fringe benefits' to attract quality staff (p.100). Some benefits were reserved for high-level or expatriate employees, and others were adapted to local conditions. The UK Midland Bank, for example, would provide a benefit if more than half of its competitors granted it in a specific locality. The social security benefits seemed to be the 'most wide-spread and important' ones offered by the MNE banks; the benefits were usually universal and amended to suit local conditions. They might also supplement government schemes in well-developed nations. Life and accident insurance followed the same principle. Maternity leave was granted according to any collective agreements or legal requirements. Expatriate staff, however, were normally treated in a special way, with benefits designed 'to maintain a high standard of living abroad' (p.105).

The provision of financial privileges for local banking staff could reduce turnover, and many of the large banks allowed participation in share-purchase schemes. By comparison, working hours, time off with pay and annual vacations were mainly influenced by local factors such as legislation, collective agreements and custom and practice, rather than by headquarters policy (p.106). Annual leave appeared to be the preference of head office to attract staff. Sometimes this was geared to length of service. The generosity of the MNE banks was not without problems. Selection and career management could 'lead to favouritism and injustice' (p.116), and significant differences between expatriate and local staff packages could also result in perceptions of inequity.

In summary, the expatriate benefit packages seem, on the whole, to be arranged centrally in the major MNEs. The local staff provisions may depend on legislation, collective agreements or unilateral decisions of the MNE, with or without head office involvement. While benefits such as annual leave may be 'coloured' by head office policy, the variety of legislation across the globe inevitably means that major areas such as pensions and social security have to be adapted locally. In the case of legislated minimum standards, the MNE usually has no choice but to meet them or exceed them. The choice for cultural aspects of MNE compensation may not be so clear.

Host Country Culture and MNE Compensation

Gomez-Mejia and Welbourne (1991:29) emphasise that MNEs are creating a world of 'stateless corporations', with staff from various cultural backgrounds, 'trying to become local companies in many countries'. The issues arising from this are:

- To what degree must compensation systems be tailored to 'cope with diverse cultural contingencies?' (p.29)
- Does the 'effectiveness of particular compensation strategies [vary] from one country to another?' (p.29)
- How can one design compensation strategies 'that are most appropriate for specific cultural conditions?' (p.29)

Their main argument is that MNEs will achieve greater success when national culture is considered in compensation design (p.29). Yet pay systems are tending to converge with similar pay-for-performance schemes being introduced around the world. The reasons suggested for this are the perception that other people's systems are more successful, greater exposure to various management practices, the growth of consultancies and the emphasis on 'prescriptive, universal practices' by academics (p.30).

Little is known, however, about how 'exported' compensation practices work in other countries and how culture affects their effectiveness. There may be some strategies that work better than others in particular environments (p.30). Rather than merely transferring more home-country reward systems to host nations, more attention should be given to local cultural norms, local compensation schemes and their effect on employee and corporate performance. This, of course, may result in some interesting ethnocentric advice for MNE managers. For instance, Puffer and Shekshnia (1996), in a piece on Russian culture and compensation, recommend that Western firms setting up in Russia design compensation so that the Russian collectivism and group solidarity are reinforced, and that pay systems should try to 'reduce the influence of other [Russian] cultural dimensions such as high uncertainty avoidance and risk aversion' (p.235). They go on to advise recruiters to select well-educated Russians under forty who have little experience of 'the old Soviet work ethic' and are thus adaptable to Western management practices, concluding that 'designing a fit between Western compensation and Russian culture is a major component of a successful compensation strategy' (p.238). In the light of this advice, it is of some significance that the Trompenaars' (1994) data on Russian managers shows them to be high on Individualism (see pp. 52 and 57).

While national culture can be significant in compensation system evolution and effectiveness, some writers contend that one should not be obsessed with this, because of the variables involved (Gomez-Mejia & Welbourne, 1991). Pay system failures may not necessarily be due to cultural differences (p.40). This point is expressed strongly by Milkovich and Bloom (1998), who accuse MNEs of letting the practice of aligning compensation to national culture dominate, particularly as there may be variations in sub-cultures. Their study of two companies in the United States and two in Slovenia suggested that local political, economic, institutional and other forces (rather than national culture) could explain 'a significant amount of variation' in employee values (p.19). Within national cultures, there still might be 'sufficient discretion' for MNEs to design reward systems that encourage corporate 'global mind sets' and achieve 'strategic priorities', linked with a 'customized' set of compensation elements in particular business units or regions to fit the local markets. There was a menu of compensation choices from which individuals can choose according to their national cultural values (pp. 20–3). The strength of the Milkovich and Bloom (1998) model is its attempt to integrate 'local versus global' MNE compensation designs and re-emphasise the linking of pay to corporate goals.

Operationalising the concepts of compensation and culture to lead to specific prescriptive policies is, of course, another matter. Hodgetts and Luthans (1993b) examined some cross-cultural aspects of compensation to advocate a particular reward strategy for local MNE managers by using the Hofstede (1980) dimensions to represent culture. For example, in high Power Distance cultures, they suggest that MNEs should follow 'a hierarchical compensation strategy for local managers', and have 'a relatively large gap between the lowest and highest members of the organization' (p.43). For a lower Power Distance culture, the range between top and bottom should be more compressed and 'participatory gain-sharing and profit-sharing' should be considered. On the dimension of Individualism, an emphasis on extrinsic and performance-based rewards is more appropriate for high Individualism cultures. Group compensation plans and inclusion of seniority and family factors would be more suitable for low Individualism cultures. Societies with high Masculinity values require compensation that recognises 'aggression and dominance', while a low Masculinity score would suggest a system that focuses on 'social benefits, quality of work life and equity' (p.44). In a high Uncertainty Avoidance culture, the local staff should have a highly structured and bureaucratic compensation system, with few variable components and an emphasis on equity. The opposite would be the case for a low Uncertainty Avoidance culture, where compensation should be linked to performance, have an element of risk, and be highly competitive relative to the market (p.45).

Hofstede's work, of course, has been subject to a number of criticisms, which he has attempted to answer (see Harzing & Hofstede, 1996). Criticism of his research has included the basing of his theories on the 'structural functionalist paradigm', his concept of 'collective programming', equating culture with nation, the construction of his four dimensions, sampling techniques, 'the related ecological–individual confusion' (Westwood & Everett, 1987:187–202), the age of the data, generalising the data from MNE subsidiary employees to national culture (Harzing & Hofstede, 1996), and his 'disembodied treatment' of culture away from institutions such as political and legislative frameworks (Ferner, 1994:91). Nevertheless, an examination of 61 replication studies after modifications, 'by and large' confirmed Hofstede's findings (Søndergaard, 1994:452). In countering the criticism of insufficient dimensions, Hofstede and Bond (1988) added a fifth dimension (long- and short-term orientation). While the Hofstede dimensions provide a quantitative difference between his samples, Jackson and Schuler (1995:252) observe that 'empirical studies seldom include direct measures of both culture and HRM' — not that there is any agreement on a 'definitive value scale' for measuring national cultural differences (Sparrow & Hiltrop, 1994:64).

A major more recent attempt than Hofstede's to represent national culture by dimensions is the work of Trompenaars (1994)(& Hampden-Turner, 1997) based on a database of responses from 30,000 managers from MNEs in 55 countries. Trompenaars used five people–relationship orientations based on the work of Parsons (1951) (Universalism versus Particularism; Individualism versus Communitarianism; Neutral versus Emotional; Specific versus Diffuse; and Achievement versus Ascription) plus a nation's attitudes to time and the environment. In his 1994 and revised 1997 texts, Trompenaars produces an ordinal nation ranking for each of his dimensions based on country averages (p.246). Whether this more recent data attains the usage of Hofstede's in international research remains to be seen. But Luthans, Marsnik and Luthans (1997) indicate that while some of Hofstede's (1980) findings are supported by Trompenaars's research, the latter's additional dimension, 'Specific versus Diffuse', showing the range of preferred involvement in the multiple areas of one's life, was more useful in explaining current work–family relationships. Furthermore, the later data of Trompenaars covers Russia and other East European nations, whereas Hofstede's does not. Interestingly, Luthans, Marsnik and Luthans (1997) noted that Hofstede's low Individualism ranking for Mexico (i.e. showing a more collectivist orientated society) was the opposite of what Trompenaars found. They attributed the move towards individualism to increased democracy and economic growth in Mexico. However, comparing the two sets of findings is fraught with problems because of different definitions, dimensions and sampling practice. Although it is more modern, the Trompenaars work can still be criticised for equating culture with national boundaries, representing culture by seven dimensions, providing average cultural scores only and generalising data from surveys of MNE managers to a national culture.

Hodgetts and Luthans (1993b) then proceeded to classify clusters of countries stating that the Pacific Rim nations have two common cultural dimensions: high Power Distance and low Individualism. They advocate high salaries for the top managers and group-based incentives (p.46). While the Hodgetts and Luthans argument has a logical attraction, their recommendations really only have the status of propositions or, in their words, 'general guidelines' (p.48). They have progressed these ideas to the development of a four country provisional IHRM contingency matrix for five areas of HRM (Luthans, Marsnik & Luthans, 1997), but the 1993 recommendations are used in the discussion of compensation for Singapore and Australia in this thesis in the case study analyses.

Other propositions concerning cultural influences on the design of incentive systems in East Asia have been suggested by Huo and Steers (1993). They propound that culture can affect an incentive scheme because 'it determines what is considered to be important or valuable by the workers' and 'predisposes organisational members to perceive problems in a certain way' (p.73). Moreover, culture can restrict the choice of options available to management. But unlike Hodgetts and Luthans (1993b), Huo and Steers (1993) do not see culture as the *main* determinant for the type of incentive scheme to be used. They are of the view that other boundary conditions such as the nature of the technology and work environment and compatibility with other systems should be considered 'before one adapts the incentive scheme to the cultural environment' (p.82). However, because of cultural characteristics, the effectiveness of any incentive scheme was likely to vary across the world. The texts of Hofstede (1980) and Trompenaars (1994) have also suggested the appropriateness of certain compensation systems for particular cultures, and a recent paper by Schuler and Rogovsky (1998) used large-scale secondary data to support propositions that:

- seniority-based and skill-based compensation is more likely in higher Uncertainty Avoidance nations, and
- individually-based performance, individual bonus/commission, performance pay and employee share options/stock ownership plans are more frequent in higher Individualism countries (pp. 159–77).

Of interest in the Schuler and Rogovsky article is the authors' assumption that in a high Masculinity culture, compensation practices would be less likely to take employees' personal and social needs and non-work lives into account. Their research found that workplace child-care and maternity leave was less prevalent in countries with higher levels of Masculinity. Compare this with Gomez-Mejia and Welbourne's (1991) suggestions for high Masculinity cultures on the Hofstede dimensions which are based on their assumption that high Masculinity denotes a perception of women as 'the weaker sex' needing special benefits such as paid maternity leave, day care and restricted hours of work — an opposite viewpoint. This illustrates one danger in extrapolating from cultural dimensions to a recommended set of compensation systems.

Looking at other research on the acceptability of compensation in particular cultures, Schneider (1988) cites an MNE's Danish subsidiary whose proposed incentive scheme for sales people was rejected by employees because it contravened the egalitarian spirit of the affiliate (p.238). She argues that the 'relative importance of status, money, or vacation time varies across countries' and will influence the potential motivation of a compensation system. Utroska (1993:74), a practitioner, propounds that 'certain US management practices like pay for performance and commission salaries do not go over well in Europe'. Koopman (1991) also states that the Western principle of rewarding only individual performance is foreign to South Africans, who dislike being singled out for their achievements (p.43). Ferner's (1994) research on a British engineering MNE found that French managers resisted the implementation of a standard company-wide Hay/MSL job evaluation scheme (p.93). Chilton (1993) writes of Lincoln Electric's 'longer than expected' transfer of its incentive programs into its foreign operations. The consultants, Hewitt Associates (1991), refer to the US MNE whose proposed pay-for-performance system was opposed in Italy and Germany for different cultural reasons in each case. The cultural problems faced by MNEs seeking to transfer compensation systems are thus very evident.

Beechler and Yang (1994) have been critical of a number of the theories explaining the transfer or non-transfer of HRM practices overseas, especially in relation to Japanese HRM. Their argument is that although one can recognise national cultural differences as affecting the ability of Japanese MNEs to transfer their HRM overseas, emphasis on culture alone ignores the 'evolution' of Japanese HRM as 'rational responses' to its social and economic development (p.471). Furthermore, the question needs to be asked why a Japanese MNE would want to transfer its HRM systems overseas in any case (p.471).

Apart from the Schuler and Rogovsky (1998) article already referred to, other recent empirical works relevant to MNE compensation and culture start to overcome 'the dearth of both theory and empirical research on cross-national compensation practices' (Townsend, Scott & Markham, 1990:667). First, Beatty, McCune and Beatty (1988) explored the bases on which Japanese and US managers made compensation decisions to highlight the problems Japanese MNEs may have in practising in the US environment. A survey of 41 Japanese and 63 US managers was undertaken and the authors found that Japanese managers gave less emphasis to performance in salary increase decisions. While performance was given some emphasis, the Japanese managers also considered job worth 'and, to a lesser extent need for achievement, organizational commitment, and years with the organization' (p.472). Beatty and colleagues concluded that unless Japanese MNEs were aware of the values and managerial practices in the United States, conflict with US staff could arise.

The interest in Japanese management has, of course, led to studies of whether Japanese MNE compensation practices can be transferred completely into Japanese subsidiaries, the assumption being that cultural differences may affect the degree of transition. This has been against a debate about how firmly entrenched the Japanese 'treasures' of life-time employment, enterprise unions and seniority systems of pay and promotion actually are in the Japanese economy, their original links with Japanese culture, and whether they are changing anyway (Morris & Wilkinson, 1995). For example, Wood (1996) compared the HRM of some Japanese manufacturing plants in the UK with those in non-Japanese UK sites and concluded that while the Japanese MNE subsidiaries practised 'high-commitment management' more frequently than the non-Japanese firms, the probability of compensation practices of pay for seniority and age were no more likely in the Japanese affiliates than they were in the non-Japanese companies (p.522). His conclusion was that there was no evidence of a 'wholesale "Japanization" of British industry' (p.511).

This appeared to confirm the results of a study by Pang and Oliver (1988), who found that only one of the eleven Japanese manufacturing MNEs studied operating in the UK used a seniority-based pay scheme; only two practised life-time employment; but all eleven had single-status facilities and conditions. They concluded that the question was not whether Japanese practices had been transferred to the UK, but whether the HRM strategies fitted in with the manufacturing, marketing and overall business strategies of the subsidiaries (pp.20–1). A similar finding was made by Dedoussis (1995), who undertook case studies on nine Japanese MNEs located in Australia. He found that seniority only played a 'marginal role' in compensation (p.740). An elementary bonus scheme existed in only two MNEs, and pay rates and allowances were in line with award rates rather than exceeding them. Fringe benefits were directly related to the size of the firm. The Dedoussis conclusion was that this absence of Japanese practices in the Australian affiliates was not because they would not 'fit' into the socio-cultural fabric of Australia, but was more likely a conscious decision to minimise blue and white collar labour costs and to 'marginalise' the local workforce (p.734). By contrast, Morris and Wilkinson (1995:728) conclude that the more 'basic tenets of JIT/TQC production' tend to be introduced in Japanese affiliates around the world, and that the 'successful transfer' has more to do with managerial prerogatives than with 'amenable societal culture'.

Returning back to global studies, Townsend, Scott and Markham. (1990) sought to identify differences in compensation practices between countries and cultures and 'to determine if the cultural cluster model described by Ronen and Shenkar [1985] [was] predictive when applied to compensation practices' (p.668). The assumption was that value differences were more likely to be reflected in the form of compensation used (i.e. the relative proportion of the components of wages, incentives and benefits). Twenty countries were placed into five clusters — Anglo, Oriental, Germanic, Latin European and Nordic. Townsend, Scott and Markham concluded that culture has a significant effect upon pay practices (p.674). The ratio of the components was affected by cultural affiliation. This is significant because 'it suggests that phenomena beyond strictly local and national customs may impact upon how employees are paid' (p.674) and the findings do not support Negandhi's (1975) assertion that culture has only a marginal effect on employment practices. The Townsend, Scott and Markham

(1990) study, however, has some limitations. Pay data aggregated by industry within nations were used. No compensation data by company or type of incentive or benefit were available. Moreover, no distinction could be made between MNEs and locally owned companies, and this might have affected the results (p.677).

This suggestion of cultural compensation differences between nations was also observed by Pennings (1993). He interviewed executives in US, French and Dutch enterprises. Using the Hofstede (1980) dimensions as a framework, he found that only the US firms used long-term executive plans and that the French and Dutch bonuses were small by US standards, ranging from 0 to 10 per cent (p.270). The US firms put more reliance on pay as a motivator. Pennings' main conclusion was that executive compensation differences were 'arguably a function of culture' (p.276).

Finally, Newman and Nollen (1996) undertook an impressive study of a large US MNE's 176 sales, service and support work units in 18 different countries in Asia and Europe. Their thesis was that MNEs 'need to adapt their management practices to the national cultures in which they operate in order to achieve high business performance' (p.754). Using data from the firm's regular employee attitude survey to measure management practices against the five Hofstede (1980; 1991) cultural dimensions, they found that work units in more Masculine cultures performed better if they 'made *more* use of merit-based rewards for pay and promotion' (p.766). Work units in more Feminine cultures were more effective if they made '*less* use of merit-based rewards' (p.766). Performance was measured by the return on assets, return on sales and the work unit's manager's performance bonus. They concluded that MNEs should take national culture as a 'given' and design their managerial practices accordingly (p.774). The major contribution of this study is its link to performance of the affiliate, although the authors admit that they used 'less-than-perfect' measures of independent variables and that their focus on only one company made the findings less amenable to generalisation (pp.775–6).

Summing up, what we have tried to show here is that the MNE must consider the additional variable of culture in the compensation design process in their subsidiaries. Our knowledge of this area is at present limited and the initial questions of Gomez-Mejia and Welbourne (1991) remain largely unanswered. There is evidence to suggest that some compensation practices will not transfer well internationally, but we do not know at this stage (with the exception of Newman & Nollen, 1996) which cultures are more amenable to certain compensation practices at all levels of the workplace than others, and whether a pay system/cultural 'fit' will result in higher productivity. Nor do we know to what extent culture, as opposed to local institutional factors, plays in explaining compensation design. Empirical evidence is emerging that culture may be a significant factor in individual country compensation design, but some writers caution MNE managements not to over-emphasise this in relation to other, more critical, institutional factors that may allow some discretion in design.

Host Country Government and MNE Compensation

An MNE subsidiary in a host country is likely to be subject to the same government rules on compensation design as applies to locally owned firms. Some evidence for this view can again be gained from ILO reports.

A 1985 ILO report stated that MNE agricultural enterprises in developing nations were subject to the same labour and safety legislation as applied to locally owned firms, and were more likely to observe those restrictions, especially in the rural sector (p.22). In manufacturing, the report submits that next to labour market forces, 'government legislation and regulation are the most important determinant of wages and benefits' given by MNEs to women workers (p.47). For the nations studied, some governments did this by setting minimum wages or decreeing cost-of-living or other increases. Not every nation has minimum wage regulation, and even those that do may not enforce it rigorously. Other conditions of service such as social security payments on behalf of the employee, leave (including maternity leave) provisions, hours of work and occupational health regulations may also affect the MNE.

The ILO (1977b) report on MNEs in the metal industry outlined the relationship between host governments and MNEs at that time. In general, MNEs were accepted as a normal part of the industrial sector and were treated in the main as if they were local concerns. However, some nations did apply restrictions, especially on the permitted level of equity in the host country. In Canada, Hong Kong, Australia, UK and the then Federal Republic of Germany, the general policy was to treat MNEs like local companies, with the 'same rights and obligations in the labour market' (p.18). India had more limiting legislation, in that majority investments were only permitted in exceptional circumstances. MNEs in India operated as subsidiaries or branches, and subsidiaries that were incorporated in India were subject to different parts of Indian company law from those applying to MNE branches.

None of the countries in the 1977 study had unique legislation on working conditions and labour relations for MNEs, so the companies were subject to local laws. Nevertheless, elaboration of some local legislation has been necessary to clarify unique MNE elements. For example, the UK labour relations legislation at the time had to accommodate trade disputes over conditions which might have occurred overseas but affected UK employees. Germany specified that MNE subsidiaries had to observe the same employee participation criteria as those applying to German companies. In Australia, MNEs were (and still are) subject to local employment laws and any industrial tribunal requirements.

A similar conclusion emerged from the ILO (1977a) study of oil MNEs. In a survey of eight nations, the Australian Government replied that it had no special legislation on wages and conditions that applied to oil MNE subsidiaries. Companies were bound by any relevant state and federal laws and any action of industrial tribunals. Similarly, there were no special provisions in France and Germany, although there was some mention at that time of the possibility of transnational collective bargains based on conditions across the EEC. In Indonesia, regulations were based on the premise that 'all mineral oil and natural gas are state owned and controlled' (p.7), although external contractors could be appointed to run the operations. The government could change employment conditions by stipulating a bonus or profit-sharing arrangement. There were no special laws in Italy for oil MNE affiliates, although national collective agreements might set minimum compensation. Similarly, in Nigeria and the UK, the governments had no unique rules for the MNEs.

Although only brief and somewhat dated evidence has been presented here, the common theme is that an MNE subsidiary is likely to be subject to the same government rules on compensation design as apply to locally owned firms.

Host Country Industrial Relations and the MNE

The MNE is thought to have a specific way of impacting upon trade unions and worker interests (Bean, 1994). This belief arises from the 'perceived strength' of the MNE, which can mobilise and transfer resources between countries and which has to operate in a number of different national industrial relations systems (p. 190). The head office of the MNE may impose its decisions on affiliates — decisions which might include the corporate view on bargaining or union recognition. Bean adds that these policies may not be appropriate for the host nation and may lead to conflict. Three common views of MNEs are that they can create unemployment in the home country by exporting jobs to cheaper labour nations, can weaken union bargaining power because of their vast resources, and can have decisions made away from the site of local managers and negotiations (pp. 191–2). Moreover, local unions have difficulty in accessing financial data on the subsidiary.

Bean (1994) examines each of these arguments in turn. His view is that the question of exporting jobs to cheaper nations is a complex one (p.192). While there are examples of MNEs transferring production, 'the evidence suggests that the possible job displacement which could occur from large-scale production switching to a more favoured location is limited' (p.193). One also cannot generalise about head office control of industrial relations. Whether head office intervenes in a subsidiary's industrial relations may depend on 'technological and organisational considerations', whether the affiliate is a key one, the age and national origin of the subsidiary, and the difference in cultures between host and home nations (pp.194–200). There are examples of MNE subsidiaries following the headquarters' line in opposing union recognition and employer association membership, but Bean (1994) cites the example of Singapore, where unions have sometimes found it easier to gain recognition with the MNEs than with local firms, possibly because the MNEs have more experience in handling unions (p.199). The union response to MNEs can take the form of exchanging information across affiliates, providing international assistance for a subsidiary in dispute, and attempting multiple negotiations with several subsidiary managements at the same time. There are examples of 'trans-national coordinated bargaining on a significant scale' (p.204).

Unions also try to establish international federations and pressure national and international bodies such as the ILO to get some control over the MNE and to ensure that MNEs at least conform to local industrial relations statutes (Briscoe, Rothman, & Nacamulli, 1992). The progress towards transnational bargaining is slow, however, because of the complexity of different laws and cultures, employer opposition, and the reluctance of local national unions and employees to allow decision making to move away from the host nation (pp.7–8) (see also Levison & Maddox, 1982). Nevertheless, the European Commission in Brussels was planning for European Works Councils that would affect MNEs and operate in at least two of the member states (Furlonger, 1992).

The issue of MNE and control dominates much of the industrial relations literature (see, for example, Hellman, 1977; Morgan & Blainpain, 1977). Frenkel (1993a) asks whether MNEs have the reputation for being anti-union because host governments might support this approach, or because MNEs might resist unions and influence governments at the same time (p.327). He concludes that the available evidence does not support 'union marginalization through the direct role of MNCs' (p.328). Some governments have sought to reduce the unions' role, but it is not clear whether MNEs are behind this. In any event, there is recent US evidence that there is not much difference between the difficulty of organising MNE subsidiaries in the United States and the difficulty of organising locally owned US firms (Sanyal & Neves, 1992).

The advice given by international business texts to management on how to run MNE subsidiary industrial relations contains a number of options. Taoka and Beeman (1991:534) see the main issue as the degree of decentralisation. They recommend that when the subsidiary management is 'new and inexperienced' in industrial relations or if one affiliate's negotiated settlement might affect another, then industrial relations should be more centralised. On the other hand, more autonomy in negotiations may raise the credibility of the local manager. Hodgetts and Luthans (1991:304) consider the 'strategic management' of industrial relations to be a major challenge for MNEs because of the numerous approaches possible. Three industrial relations approaches are advocated by the authors: the ethnocentric, polycentric and geocentric. The ethnocentric is said to be 'generally not effective and can have even disastrous results' (p.305). MNEs may abandon this approach as they expand internationally. With the polycentric, the MNE's industrial relations strategy is a series of different approaches adapted to the unique external environment of each nation. The geocentric model tries to link different locations together in a unifying and 'composite industrial relations approach' (p.305).

The empirical literature on MNEs and industrial relations goes back thirty years — Kujawa (1979) acknowledging Shearer's (1967) *Industrial Relations of American Corporations Abroad* as the first work on the problems of MNEs and labour — so only a representative selection is discussed here. Roberts and May (1974) surveyed 32 British MNE head offices and found that 63 per cent of these gave policy advice on industrial relations to subsidiaries, with just over a third stating that no advice was ever proffered. Bomers and Peterson (1977) assessed the industrial relations of 23 MNEs (8 US and 15 European) with subsidiaries in West Germany and the Netherlands. They had no evidence that MNEs frequently referred industrial decisions to higher levels to avoid an issue, and found no concern among unions about some industrial relations practices transported by US MNEs (p.52). Kujawa (1979:11) scrutinised existing research on MNE industrial relations at the time and concluded that empirical evidence did not sustain the argument that US MNEs attempted to 'despoil the local social and cultural integrity' of local host nation environments as they related to industrial relations.

Enderwick and Buckley (1983, amended 1984) used the results of a 1980 British Workplace Industrial Relations Survey to obtain data on 63 foreign and 485 locally owned MNEs operating in Britain. They found that foreign owned MNEs were less unionised, more likely to engage in decentralised plant level bargaining, and tended to tie industrial (manual) worker increases to rises in the cost of living (rather than on the British companies' capacity to pay). Non-unionised foreign MNEs tended to pitch salary levels for non-manual employees to comparable rates outside (p.323). Compared with the British, foreign firms avoided payments by results incentive schemes and appeared to utilise labour more effectively (p.329). By comparison, Henley (1983) investigated the industrial relations of MNE manufacturing subsidiaries in Malaysia and Kenya to show the impact of environment on labour policies. Henley argued that industrial relations and HRM policies of the MNEs were particularly affected by government control of unions, especially at central organisation level.

Governments were willing to 'subordinate the interest of labour to national economic priorities' by minimising restrictions on employers' prerogatives (p.117). Company unionism was encouraged, but political activity was prohibited. Nevertheless, Henley concludes that while government policies were similar, MNE policies and practices differed greatly. This may have been due to the age of the company, the role of expatriate managers, the 'general level of economic activity' or the 'specific social structure and political system' of the country (pp. 129–30).

Apart from the research already summarised, the main data on individual MNEs is contained in ILO surveys. A 1977(b) report on six US-based MNEs in the metal trades summarised replies from Caterpillar, John Deere, Ford Motors, General Motors, International Harvester and Otis Elevators. Each MNE responded differently to the notion of a general international industrial relations policy (p.82). Caterpillar had a Code of Conduct which gave recognition to unions if the employees so desired. Ford and Otis had a policy that encouraged each subsidiary to work out its own industrial relations in the context of the local laws and practices. Local legislation was significant in the degree of recognition given to unions. Legislation and general customs of host nations were also important in relation to the degree of influence unions had on decision-making at various levels, apart from any collective agreement negotiated. All MNEs preferred to handle industrial relations matters locally or at a level as low as possible, and there was little transfer of labour relations practices from the home nation. Any international transfer of practices that did occur, tended to occur through training in industrial relations at head offices or because local managers requested them.

The industrial relations practices of the MNE oil companies were also reported on by the ILO (1977a). Replies were obtained from 21 petroleum companies, both from headquarters and subsidiaries, but with less detail than the metals study. Industrial relations policies again varied from nation to nation. For example, Esso Australia observed in its reply that trade union recognition was an 'integral part' of the compulsory arbitration system in Australia (p.82). Shell Germany likewise stated that Federal Republic legislation gave sole bargaining rights to a single union that negotiated with the company at national level.

A 1984 survey of 8 textile, clothing and footwear MNEs and 11 subsidiaries carried the same theme as previous MNE sectoral studies — namely that the degree of unionisation in the MNE subsidiaries appeared to be on a level similar to the national situation in which the affiliate was located (e.g. high in Australia and low in countries where unions were attempting to get established), and that responsibility for industrial relations was very decentralised in most of the MNEs (ILO, 1984). MNE parent headquarters seemed only to have an advisory role, and became involved only exceptionally, over problem cases (p.120). There was evidence of some transferring of home nation practices. For example, Kanebo of Japan had a subsidiary in Brazil (Kanebo do Brasil) that had adopted many practices of the parent company within the local legal framework. The Brazilian affiliate believed this gave it industrial relations that were superior to those of local firms (p.122).

One final data source on MNEs and industrial relations is the ILO report on social and labour practices of MNE banks (1991a). As might be expected, the density of union membership and recognition in bank MNEs varied according to country, depending on the industrial relations system, the labour legislation and the strength of the union movement. The level of unionisation in MNE banks was generally lower than in local banks (p.123) because of the banks' reluctance to unionise, the individual nature of the work, the good conditions, and prospects for careers (p.137). Collective bargaining practices varied greatly among banks and countries, but the local legislation had to be observed. In some situations, the MNEs would transfer internal salary administration and personnel policy from the home country, but where these practices conflicted with local law, the latter would prevail (p.126). MNE banks tended to supplement local conditions, but because of competition, the large MNE banks did not diverge very much from each other in industrial relations.

Generalisations about host country industrial relations and MNEs are thus difficult to make. The discretion given to a subsidiary in IR policy is dependent on many factors. While MNE headquarters may intervene in the industrial relations policies and practices of an affiliate, and there may be some transferring of home country practices, the extent to which this occurs will depend on a number of factors, including the subsidiary role and product (Frenkel, 1993b). The reputation of MNEs for minimising trade union recognition is not easy to substantiate on current evidence.

Some MNE are advocates of decentralisation, which leaves the subsidiary to develop its own industrial relations strategies. Consequently, each MNE is likely to have different policies for each affiliate for each country as it adapts to that country's unique legislation, custom and practice and union movement. Legislation, in particular, will probably guide the choices of the subsidiary on matters such as trade union recognition and collective negotiations.

Host Country Law, International Codes and Compensation

The importance of the local legislation to MNE HRM has already been noted, but according to Florkowski and Nath (1993:306), 'there is a dearth of research' on the way MNEs adapt their HRM practices to local legal systems. Despite this, the host country legislation and regulations are usually included in international HRM models and frameworks (see, for example, Schuler, Dowling & De Cieri, 1993). In fact, legislation and regulations may be the strongest external factor shaping the structures and procedures of MNE subsidiaries because of the possible penalties involved in non-compliance (Flokowski & Nath, 1993). The difficulty for the MNE is that private international law is part of national law, and so will vary from nation to nation (Morgenstern, 1984). In many countries, the international law is changing to accommodate the increasing number of MNEs and higher government intervention in labour matters (p.2). Attitudes to litigation may also vary by culture, some cultures using it as a very last resort (Robbock & Simmonds, 1989).

Four possible sources of law confront the MNE: (1) the indigenous law of the home country of the MNE, (2) the indigenous law of the host country, (3) the indigenous law of the home country of the employee, and (4) transnational law (Florkowski & Nath, 1993). Local staff working at the MNE parent head office are subject to home-country law. Expatriates working overseas may also be subject to home law. Employees at the host nation subsidiary will be subject to host country legislation, but the position of third country nationals 'is less clear' (p.308). The authors go on to divide the MNE legal environment into five dimensions — regulatory heterogeneity, complexity, stability, predictability and relevancy. The latter term (the extent to which employment legislation will be enforced) was considered to be the 'most critical dimension to consider' (p.311).

Local legislation can affect the amount of compensation given (Morgenstern, 1984). There might be a legal minimum wage and certain mandatory bonuses such as the 'thirteenth month' in some nations (p.73). There might be equal pay laws, or legislation covering the form and periodicity of payments (p.74). Yet MNEs can adopt a strategy to minimise the effect of host nation laws. They may avoid countries where they perceive the legislation to be unfavourable. They can negotiate with a host government to modify the constraint, or enter into a joint venture to get around some restriction (Florkowski & Nath, 1993). It is possible that one factor in an MNE's choice of location of country is the compensation legislation and rules facing it, but the research in this area is limited.

More work has been done on the impact of international codes on MNE operations. Because of pressure from unions and governments, in 1976 the countries of the OECD adopted a voluntary code for labour issues in MNEs. Where no comparable organisations exist, the MNE has to provide the best possible compensation within government policies and at a level to meet the basic needs of the employees and their families (para.34). This was followed by the International Labour Organisation (ILO) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy that exhorts MNEs to provide wages and conditions which are 'not less favourable' than those for other host nation companies (ILO 1977c; 1991b:Section 33). Under the OECD Guidelines (1976:16), the standards of employment and industrial relations 'must not be less favourable than those observed by comparable employers in the host country' (p.16). The UNCTC Code of Conduct for Transnational Corporations (quoted in Dunning, 1993:588–596) incorporating the Tripartite Declaration, is more ambitious and is intended to be legally binding on signatory countries. Policy decisions of the EU have also enhanced union rights in dealing with MNEs (Robbock & Simmonds, 1989).

The thrust of the ILO and OECD guidelines is to seek greater acceptance by MNEs of employees' rights to join unions and to extend collective agreements (Robbock & Simmonds, 1989). Other ILO conventions on 'basic worker rights' relate to forced labour, child labour and discrimination and equality of compensation (Coulthard, 1997). While the codes are not legally enforceable, they are agreed by the member nations and accepted by major MNEs (Robbock & Simmonds, 1989). Because of their sensitivity to criticism, MNEs often welcome the codes, provided they are 'consistent with international law' and do not discriminate against MNEs in favour of local industry (Blanplain, 1987:136). Following the codes raises their conduct above criticism.

When a country ratifies an ILO convention, it precludes the nation from changing a law 'in a way to render it incompatible with the convention' (Landau, 1990:35). The conventions of the ILO may be incorporated into the legislation of a host nation and be supplemented with local administrative regulations. Some evidence on whether the ILO Declaration had any impact on MNE practices is given in two ILO reports on the MNE textile, clothing and footwear industries (1984), and the MNE banking industry (1991a). The replies from parties in the textile industry were supportive of the principles, but in some quarters the guidelines were not well known. The Confederation of Australian Industry acknowledged that MNEs in Australia were conducting business in line with the requirements (p.140), and a similar situation existed in Germany. The Malaysian Employers' Federation reported that no union complaints had been received (p.141). Although the MNEs and most unions surveyed had not experienced any problems, the British Trade Union Congress was concerned that some MNEs had shown an 'unwillingness to observe the spirit, let alone the letter, of the Declaration' (p.142).

The ILO banking report (1991) perhaps sums up well the sketchy evidence we have on the impact of the various international codes on MNE compensation policies and practices, namely, 'there is no evidence of either whole-hearted observance or complete disregard' (p.137). The reaction to local legislation is firmer in that the MNE has to observe it, but even there, the ILO has evidence of MNEs negotiating with governments to waive certain conditions. Further, on a more general level, the ratification of ILO conventions varies enormously across countries and they only have legal force if backed by local law (Frenkel & Royal, 1996a). The average ratification rate of all ILO conventions is 'quite low', and their relevance in a globalised economy is being questioned (Coulthard, 1997:55). There is no consensus on whether increasing competition and globalisation will lead to decreasing labour standards across economies of the world, but there is evidence of mandatory benefits being offset by lower wages, thus holding wage costs constant (Lee, 1997).

The MNE Head Office Relationship with its Subsidiaries

Although the headquarters and subsidiary relationship has been discussed briefly in industrial relations and other contexts, it is appropriate to conclude this chapter with two sections on the research on head office involvement in compensation decisions in MNE subsidiaries. We initially consider the head office–subsidiary relationship in general terms, then focus on compensation alone. In relation to this thesis, it could be argued that the amount of influence the external environment has on subsidiary compensation at certain occupational levels will be contingent on the MNE's structure of international operations and the international orientation of parent MNE headquarters (Schuler, Dowling & De Cieri, 1993).

Sundaram and Black (1992) argue that MNEs are not just extensions of 'non-MNEs' in a cross-national setting (p.730). If that were so, no new theories of organisations would be needed — only better existing ones. However, MNEs do have a number of unique features which require 'multi-disciplinary and integrative research'. They are 'a complex network of differentiated subsidiaries' or 'complex global forms' (p.730). They are subject to 'multiple sources of external authority' in that subsidiaries are exposed to a variety of different national laws, politics, languages and culture (p.735). There is no one mechanism which the MNE can use to handle each environmental exchange (p.736). Consequently, another 'distinguishing feature of the MNE environment arises at the intersection of differences in country environments' (p.736).

Rosenzweig and Singh (1991) outline the now-familiar problem. The MNE is a single organisation that operates in a number of countries, each presenting a different local environment (p.340). Seeing the MNE as a separate set of units in different nations overlooks the need for 'shared management', the roles of each affiliate in contributing to corporate objectives and the ability to move resources between subsidiaries (p.344). This is neatly summed up as 'the tension between forces for global integration and national responsiveness' (p.344). In addition to this tension, subsidiaries face pressure to become like each other ('organizational replication'), like the head office ('mirror effects'), and subject to 'the imperative of control' (p.346). The conflicting pressures on the subsidiary of 'isomorphism with the local environment' and 'consistency within the [MNE]' can be plotted on two axes so that combinations might vary in each nation in which an affiliate is located (a third axis) (p.347). Rosenzweig and Singh (1991:347) add a fourth axis: each combination might be different for each subsidiary process in each country represented. They summarise the implications for organisation theory using the following hypotheses:

> - National boundaries are an important force in defining organizational environments.
> - National boundaries are of varying importance for different elements of organizational structure and process.
> - The subsidiary of an MNE faces an environment that includes other sub-units within the MNE.
> - Subsidiaries of MNEs can act as conduits that introduce changes into the host country's environment.
> - Subsidiaries of MNEs can act as conduits by which features of the host country's environment are introduced throughout the organization.
> - National environments are increasingly linked, and they affect each other.
>
> (Rosenzweig & Singh,1991:353–5)

Using these authors' work as a basis for asking questions about MNE compensation systems, resource theory might suggest that the environment for MNE subsidiaries consists of the host nation plus other affiliates of the same MNE. The compensation system of the subsidiary might therefore be developed using resources of head office as well as of other subsidiaries. Dependence on local resources is therefore less (p.356). An example might be the use of a common job evaluation system throughout a global MNE irrespective of the host nation. By comparison, the compensation systems of multi-domestic firms may more closely resemble those of local companies. Institutional theory of organisations emphasises the need for subsidiaries to 'take on structural forms sanctioned by their environments' (p.356). But these environments will include other parts of the MNE as well as the host nation elements. The theory has therefore to incorporate the pressure for compensation conformity in the MNE and local pressures for adaptation. Ecology theory studies have tended to concentrate on environments within national boundaries (p.356), but it is clear that one national environment may affect another through the operations of an MNE.

Research on the MNE head office relationship with its subsidiaries has centred on the methods of coordination and control, which included HRM, corporate culture, delegation of decision making, and governance structures (p.346). Mechanisms for inter-subsidiary linkages include bureaucratic control, centralisation, 'normative integration' (building common values among MNE managers), and 'critical flows of capital, technology and people' (De Cieri & Dowling, 1995:139). The difficulty in analysing the role of headquarters here is that the functions of affiliates vary. MNE subsidiaries of the multidomestic variety are relatively more self-sufficient while in the global industries, the affiliate may be reliant on other subsidiaries for 'know–how, capital and key personnel' (Rosenzweig & Singh, 1991:349). Ferner's (1994:83) findings complement this view in that 'polycentric' MNEs decentralise their HRM to subsidiaries with few international guidelines, compared with ethnocentric and global MNEs, which manage in a more centralised way. The ethnocentric MNEs are therefore more likely to be HRM 'innovators' in the host country, compared with polycentric firms, which are more prone to be 'reactors' (p.83).

The evolution of research by more than 80 writers on these aspects has been synthethised by Martinez and Jarillo (1989). Their 'mechanism of coordination' of international activities is defined as 'any administrative tool for achieving integration among different units within an organization' (p.490), and they note that this is not exclusive to MNEs. Their proposition is that studies of coordinating mechanisms have moved from structural and formal ones such as departmentalisation, formalisation, standardisation, and output and behavioural control to more 'informal and subtle' devices such as lateral relations and informal communications (p.492). Early writers sought the 'right' structure for the MNE and tried to measure the degree of centralisation. The inconclusiveness of this research led to more studies of functional areas and MNEs of different national ownership (p.497). More recently, the research has concentrated on more informal mechanisms such as the stressing of corporate culture (see, for example, Ferner, 1994) and the managing of career paths — while at the same time not neglecting 'the consistency to take advantage of global opportunities' (p.500).

Thus one cannot generalise about head office control of managerial functions. Some functions may be more centralised than others, while others may be more firmly linked to divisional headquarters located outside their parent home countries (Ferner, 1994). The degree of centralisation may also be due to micropolitical processes and bargaining with subsidiaries (resulting in a loosely coupled system), or due to national business cultures, or national differences in structure.

Past empirical research has investigated these issues, and a selection will suffice to illustrate the progression of knowledge. Starting with an early empirical study of British MNEs by Roberts and May (1974), already referred to, answers were sought from head offices about whether the involvement in subsidiary industrial relations was '(1) need for approval, (2) guidance, (3) standard setting, (4) assistance in policy planning', or '(5) the provision of staff assistance from headquarters' (p.406). Later, Bartlett (1983) suggested that rather than attempting to find the appropriate structure to handle the widening of international bases, the problem was more likely 'one of managing the process than of changing the structure' (p.138). This approach involved building a 'multidimensional and flexible decision process' (p.146).

The balance involved between the MNE and its subsidiary 'implies decision making processes beyond the mere formal organization' (Doz & Prahalad, 1984:55). There need not necessarily be a choice between integration and responsiveness — both may be found together. Consequently, the balance between responding to the home nation and integrating the MNE 'cannot be purely analytical and rational' (p.56). MNEs can choose between bureaucratic and personal control systems to monitor behaviour and output and probably use a combination of both, depending on cultural distance and subsidiary interaction (Baliga & Jaeger, 1984).

Ghoshal and Nohria (1989) adopted a more theoretical approach in exploring the internal differentiation within MNEs. They proposed a contingency framework to 'develop conditions of "fit"' between the context and the structure of headquarters and subsidiary relations (p.323). Their MNE data 'supported the logic of internal differentiation' within MNEs so that on a contingency basis a 'fit' can be achieved in the parent–affiliate relationship, which will lead to better performance (p.333). For instance, they suggest that a hierarchical structure is more appropriate when subsidiaries operate in stable environments and have limited resources (p.333). The same data were used in a later paper (Nohria & Ghoshal, 1994) discussing the importance of 'shared values' between head office and its affiliates. The concept of 'fit' in IHRM was also developed in work by Milliman, Von Glinow and Nathan (1991) (discussed in the next section).

In looking at subsidiary strategy as a variable in the head office relationship, Martinez and Jarillo (1991) hypothesised that the strategy pursued by the subsidiary will determine the kind of coordinating mechanism used by the parent MNE. After conducting a survey of 50 MNEs operating in Spain, they concluded that there appeared to be a strong relationship between the role assigned to the affiliate and the control mechanism. As integration of the work of the subsidiary with the rest of the MNE increased, there was a larger use of formal and subtle mechanisms 'up to a point regardless of its level of localization' (p.441). Subtle mechanisms also became more significant 'once the formal ones have been put into place' as the need for coordination increased (p.441).

As mentioned above, research on more specific aspects of parent–subsidiary relations has included differences in managerial control due to the nationality of the MNE. Ferner (1997) has provided a useful summary of sixteen comparative studies on the relationship of an MNE's country of origin to managing HRM in MNEs. He found that there was 'a relatively small body of research' on the way MNEs of different nationalities manage HRM (p.20). Nevertheless, the research so far provided 'substantive support' for nationality as a major factor in head office–subsidiary HR management although the impact of nationality was likely to differ according to the issue. The weakness of the literature was, however, that it was mainly survey-based, with few case studies to show processes and linkages, and with an under-emphasis on HRM/IR as opposed to general managerial responsibilities. Past work had also focused mostly on US and Japanese MNEs, with European countries 'lumped together' (p.22). A few examples of MNE nationality research will perhaps suffice here.

Egelhoff (1984) in a sample of 50 US, UK and European MNEs concluded that US MNEs monitored affiliate outputs and required more formally reported performance data than did European MNEs. US MNE controls involved more quantitative aspects and precise plans and budgets to derive comparable standards (p.81). Kreder and Zeller (1988), in comparing US and German MNEs, noted that American MNE control was 'more centralized, indirect, directive and task-oriented' whereas German control tended to be 'decentralized, direct, participatory, and socio-emotional' (p.64). Negandi, Yuen and Eshghi (1987), in studying Japanese subsidiaries in South-East Asia, recorded that in most Japanese subsidiaries, the senior positions were held by expatriates who exerted the control together with visits 'from strategic personnel from the headquarters, and regular reports and communications with head office' (p.78). Negandhi (1987) compiled lists of factors that encouraged centralisation and decentralisation of MNE decisions based on a literature review (see p.183). His study of 120 subsidiaries of US, German and Japanese MNEs found that in general, on a range of decision making, the US affiliates had the least autonomy, the Japanese the most, and the German somewhere in between. Compensation decisions were not included in the survey, but affiliates from all three nationalities had a very high influence on personnel training and layoffs of operating personnel. They had only moderate influence on the use of expatriate personnel from headquarters, and very little over the appointment of a chief executive for the subsidiary. Obviously, more comparative research on countries already surveyed (and on other countries) is necessary to establish fully the effect of MNE nationality on head office–affiliate management.

This brief overview of the nature of the MNE head office–subsidiary control literature shows that research has considered a number of variables such as structural devices as opposed to subtle and informal influence, the need for integration as opposed to responsiveness, the strategy and role of the affiliate, and the nationality of the MNE. Greater examination of the role of regional offices in subsidiary control needs to be added to this area of MNE studies in the future.

MNE Head Offices and Subsidiary Compensation

According to Milliman, Von Glinow and Nathan (1991:321), 'there is relatively little research' on the link between MNE headquarters and affiliates in international HRM. That statement could also be applied to the position for MNE compensation. Martinez and Ricks (1989:468) agree that 'only a handful of [HRM] studies' exist on the parental influence and those that do, look at that way the affiliate can be controlled rather than the way HRM decisions are affected. One example is a discussion piece on IJVs by Frayne and Geringer (1990:65), who suggest that compensation in IJVs can be used as a control device by linking employee bonuses to the parent's international operations and achievement of the IJV's 'long-term strategic objectives'.

On first thought, any generalised finding about the influence of MNE head offices on affiliate compensation is likely to overlook the fact that the involvement may vary according to the subsidiary in question, the type of employee (HCN, PCN or TCN), the type of occupation, and the particular aspect of compensation (such as structures, collective agreements, base pay levels, financial incentives, or any of the employee fringe benefits). What research there is rarely gets down to this level of detail. Over and above the compensation itself is the relationship of pay systems to the other HRM functions and to the MNE strategies generally.

To put these issues in context, Milliman, Von Glinow and Nathan (1991) provide a useful framework for the analysis of the head office–subsidiary relationship, as shown in Figure 3.1.

Figure 3.1
Four Fits of Strategic International Human Resource Management

	Internal IHRM Fit within IHRM Functions	**External Fit of IHRM to Organisational Context**
Within Organisational Level of Analysis	Internal IHRM Fit (Selection, Training, Appraisal, Rewards)	IHRM Fit to Organisational Life Cycle Stage
Outside Organisational Level of Analysis	Foreign Subsidiary Fit to Corporate IHRM	IHRM Fit to Cross-cultural & Cross-national Environment

Source: Milliman,J, Von Glinow, M.A. and Nathan, M.(1991) 'Organizational Life Cycles and Strategic International Human Resource Management in Multinational Companies: Implications for Congruence Theory', Academy of Management Review, 16(2), p.322.

The 2 x 2 framework in Figure 3.1 is based on the proposition that to maximise its effectiveness through strategic IHRM, an MNE has to simultaneously achieve an external and internal fit. The external fit consists of dealing effectively with the cross-national and cross-cultural external environment, and using IHRM practices to 'facilitate the adaptation' of the MNE to those environments and to support the MNE's stage of development (p.321). By contrast, the concept of internal fit is based on the simplified structure of an MNE corporate office and foreign subsidiary, where fit is obtained when there is an integration of all IHRM practices at each level of the MNE (head office and affiliates), and where IHRM practices are 'congruent between the corporate office and the foreign subsidiary levels' (p. 322). The complexity of these integrative relationships clearly increases as the number of products and affiliates rises (p.323).

In most of international compensation research, the main quadrant receiving attention is that of the 'fit' between the parent head or regional office and the affiliate. This observation particularly applies to some ILO surveys. But the relationship is not a simple one and the research suggests that the head office influence on subsidiary compensation may depend on factors mentioned before in passing — the dependence of the subsidiary on head office resources, the importance of the subsidiary, the type and level of employee, the kind of compensation element, the nationality of the MNE, the method of acquisition of the affiliate and its ownership. Some research concentrates on describing the degree of involvement by the head office into affiliate compensation, while other work attempts to underpin the relationship with a more theoretical approach using some of the above variables included. The simpler descriptive research is outlined first.

Although one of the first research studies of head office control in MNEs probably dates back to Alsegg's (1971) work MNE affiliates in Europe, one early major survey on head office–subsidiary relationships that specifically included affiliate compensation was by Van Den Bulcke and Halsberghe (1984). They evaluated the impact of MNE head offices on employment decision making in 260 foreign manufacturing subsidiaries located in Belgium in 1976. The authors defined 'decisive influence of the parent company' as: '(1) without taking into account the advice of the subsidiary and (2) with the advice or proposals of the subsidiary being taken into consideration' (p.9). Out of 222 subsidiaries responding to the question, 21 per cent reported that there was 'decisive' influence from the parent MNE on employment decisions (p.16). The following extract (Table 3.1) shows a more detailed breakdown of the percentages for the decisions subject to decisive headquarters' influence.

The survey was completed by the 'top managers' in each of the subsidiaries, based on their personal experience of 39 decision making areas in the affiliate. For

Table 3.1
Decisive Intervention by the Parent Company in Decision Making of Foreign Subsidiaries in Belgium, 1976 (N=222)

Decision	Percentage of Subsidiaries with Decisive HQ Influence(a) %
Granting of fringe benefits	36
Salaries of middle managers	29
Signing of collective company agreements	18
Payment systems in general	16
Actions relating to union demands	14
Acceptance of collective agreements	14

Source: Extracted from Van Den Bulcke, D. and Halsberghe, E.(1984) 'Employment Decision Making in Multinational Enterprises: Survey Results from Belgium,' Working Paper No.32, Geneva, ILO, p18, Table 2.
Note: (a) Decisions made by the parent company without consulting or after having consulted the subsidiary

compensation, Table 3.1 shows that the degree of intervention by head office varied according to the issue. Because the survey did not seek qualitative responses, the reasons for this are not apparent, but there seemed to be more intervention in managerial staff pay than in industrial (unionised) employees' rewards. From the same survey results, Table 3.2 provides an even more detailed breakdown. It indicates four scaled responses: (1) a decision by the parent company, (2) the parent MNE taking into account the advice of the subsidiary, (3) the subsidiary deciding but taking into account the views of the parent MNE, and (4) the subsidiary making an independent decision.

Table 3.2 demonstrates that responsibility for payment systems in these MNE subsidiaries based in Belgium generally rested with the subsidiary. Head office intervention was also relatively low for collective agreement administration, but the parent MNE did intrude more when top and middle management compensation was determined and when employee benefits were granted. The freedom to negotiate collective agreements may have been due to the necessity for local knowledge of the labour market customs (p.61). Van Den Bulcke and Halsberghe's data suggested that the staffing, training and compensation of local managers were among the most centralised decisions in MNEs (p.28) although the centralised or decentralised nature of HRM is reflected in several ways. Over 90 per cent of Personnel Managers in the

Table 3.2
Parent Company and Subsidiary Personnel Decisions in Foreign Subsidiaries in Belgium, 1976, (N as indicated)

Decision-maker	(1) Parent Company Decision	(2) Parent Company (+ subsidiary) Decision	(3) Subsidiary (+ parent company) Decision	(4) Subsidiary Decision	(5) Other replies	Total
Decisions	%	%	%	%	%	N
Payment system in general	4	12	31	49	4	245
Determination of salaries for top management	9	24	44	20	3	242
Determination of salaries for middle managers	8	21	44	25	3	241
Actions relating to trade union demands	2	12	26	55	6	231
Signing of collective company agreements	5	13	32	46	4	216
Acceptance of collective agreements	3	11	27	52	7	216
Granting of fringe benefits	7	29	41	19	3	242
Recognition of trade unions	3	6	24	58	9	242

Source: Extracted from Van Den Bulcke, D. and Halsberghe, E.(1984) 'Employment Decision Making in Multinational Enterprises: Survey Results from Belgium', Working Paper No.32, Geneva, ILO, p.26, Table 6.

foreign subsidiaries in Belgium were of host country nationality, compared with 7 per cent PCNs and 2 per cent TCNs; 63 per cent of the directors in the subsidiaries were PCNs (p.30). The decentralisation of compensation decisions was also reflected in the frequency of standardised reports to head office on employment matters, which was less than that for financial and commercial data.

Moving from an examination solely of the degree of head office involvement to include other variables, the Van Den Bulcke and Halsberghe (1984) research went on to show that the nationality of the MNE could affect employment decision making, as it was 'more strongly determined by [head offices of] European than American parent companies' (p.39). The degree of ownership of the affiliate by the parent was also 'an important indication of the potential impact of the parent company' (p.45). The work of Van Den Bulcke and Halsberghe (1984) is unusual in including data on regional offices of MNEs as well, although like MNEs themselves, the form of regional office can vary greatly from MNE to MNE. Of all regional offices of US MNEs with affiliates in Belgium, 75 per cent could make a decision on compensation systems without having asked for advice from the parent company or the subsidiaries (p.70). The figures were between 61 and 74 per cent for deciding general HRM policy, reacting to union claims and signing collective agreements (p.70). However, the corporate MNE head office still retained responsibility for compensation of middle and top management and the level of employee benefits (p.71). While the study offers copious data, it is limited by the respondents being subsidiary heads only, by being restricted to one country, and by omitting references to corporate strategy and the external environment. The authors acknowledge that subsidiary managers might also be prone to declaring more autonomy than they actually have (p.8).

The greater authority given to subsidiary management for the design of wage payment systems is also evident in Hamill's (1984) study on the labour relations decision making of subsidiaries of 30 MNEs operating in Britain in the chemicals, electrical engineering and mechanical engineering industries. He interviewed a range of small and large subsidiaries and examined operating characteristics including the date and method of establishment, degree of inter-subsidiary production integration and nationality. Hamill found that the degree of centralisation of labour relations varied according to issue. Examples are shown in Table 3.3.

From Hamill's evidence, the operating budget for a British subsidiary is a highly centralised decision, while wage increases are less so. The nature of the wage payment system is decided or approved in 11 cases out of 30 at the parent or regional head office, with decisions on the type of fringe benefits having the same proportion but requiring more consultation or advice from head/regional offices. The conclusion is that it is not realistic to see the entire labour relations function as being centralised or decentralised. Rather, the amount of head office intervention will vary according

Table 3.3
The Locus of Decision Making in MNE Subsidiaries in Britain (N=30)

Issue	Decided Mainly by Parent/Reg. H.Q.	Approved by Parent/Reg. H.Q.	Consulted with or Sought Advice of Parent/Reg. H.Q.	Decided Mainly by the U.K. Subsidiary
	Nos.of MNEs	Nos. of MNEs	Nos. of MNEs	Nos. of MNEs
Operating Budget	15	10	1	4
Wage Increases	-	17	6	7
Wage Payment Systems	10	1	1	18
Pensions	6	9	7	8
Fringe Benefits	6	5	6	13

Source: Extracted and adapted from Hamill, J. (1984) 'Labour Relations Decision Making Within Multinational Corporations' Industrial Relations Journal, 15(2), 30-34, Table 1.

to issue (p.33). In addition, the degree of centralisation appeared to depend on a number of factors: the nationality of the parent MNE; the degree of inter-subsidiary production integration; the performance of the UK affiliate; and the relative importance of the parent MNE as a source of funds for the UK subsidiary (p.33). The degree of inter-subsidiary production integration was found to be 'the most important factor leading to the centralisation of the labour relations function' of the MNEs studied (p.33).

The integration of countries within the European Union has led to speculation that MNE head offices will take a greater coordinating role in managing their compensation across European affiliates (Shonfield, 1992). This 'pressure' from the external environment is being studied by British researchers. Atkinson's (1989) study of 35 British MNEs with affiliates in Europe (quoted in Walsh, Zappala & Brown, 1995:86) again highlighted that MNE head offices handle compensation of different occupations with different strategies. The impact of the local external environment on compensation design is therefore likely to be different for each employee group. Atkinson found that the prospect of a European-wide labour market would not dramatically affect the British MNEs as the 'harmonisation' of employment conditions across Europe would only affect staff who were likely to be mobile between countries — such as young graduates, senior managers and technical staff. The integration of pay systems for these levels was through uniform job grading, with actual pay rates being decided according to local conditions (Atkinson [1989] in Walsh, Zappala & Brown, 1995:86).

Walsh with co-authors (1995) interviewed representatives from 13 British MNE headquarters with outposts in Europe, and concluded that the standardisation of compensation along European lines was restricted to 'qualified employees' — especially senior managers — and not lower-level white collar or production staff (p.89). Like Atkinson's findings, this was evident through the standardisation of salary structures for employees who were mobile between subsidiaries. However, there were limitations: 8 of the 13 MNEs paid their senior executives according to local host country conditions (though with head office approval [p.89]), and all MNEs were conscious that different national social security arrangements and taxation and pension legislation hindered total standardisation. Nevertheless, several MNEs were extending their job evaluation systems for white collar staff to ease career progression decisions. Walsh, Zappala and Brown concluded that the majority of the MNEs 'monitored pay settlements' in the subsidiaries rather than using coercion or centralising the decision (p.91). Only one head office decided the percentage pay increase for each overseas affiliate, compared with three which provided no head office guidelines for pay determination. In the design of compensation systems for affiliates, the relationship of the 13 MNE head offices was judged as 'instruct' in five cases, 'advise' in two, 'guide' in three, and '[allow] autonomy' in three. The MNEs seemed to be responding to the European integration in different ways, but apart from the extension of grading systems for mobile senior employees, there was no evidence of 'greater central authority over pay determination'(p.95).

The heterogeneity of the MNE structures and head/regional/local relationships evident in the Van Den Bulcke and Halsberghe (1984) paper discussed earlier is repeated in the Kuwahara (1985) study of decision making structures and processes in more than 100 foreign MNE affiliates in Japan. HRM decision processes could differ depending on whether they were affecting PCNs or HCNs and, in the US MNEs, might flow from head office divisional heads, through regional offices and then on to subsidiary general managers and the local HRM managers (p.14). The Japanese data from a 1984 Japanese Ministry of Labour survey of more than 100 subsidiaries suggested that in about two-thirds of the cases the locus of the decision to change the wage system was in local subsidiaries. In about 28 per cent of cases, decisions were made after consultation with the parent MNE; about 5 per cent were made by the parent head office alone (p.16). By contrast, decisions on planning, investment, R&D and technology essentially remained with the parent MNE (p.21).

Continuing with Japanese MNEs, Negandhi, Yuen ande Eshghi (1987) surveyed 65 Japanese owned manufacturing firms with subsidiaries in Malaysia, Thailand and Singapore. The most senior Japanese and HCN managers in the affiliates were asked to complete questionnaires to reflect the differences in perceptions. Extracts from their findings are shown in Tables 3.4–3.5.

Table 3.4
Japanese Managers' Perceptions of the Degree of Influence of Headquarters (HQ) in Subsidiary Decision Making in Japanese Subsidiaries in SE Asia (N=65)

	Responses as a percentage of Total		
	No to Little Influence of HQ	**Medium Influence of HQ**	**High to Very High Influence of HQ**
Setting Salary Levels for Locals	74.58	18.64	6.77
Fringe Benefits for Locals	76.67	15.00	8.33

Source: Extracted from Negandhi, A.R. Yuen, E.C. and Eshghi, G.S., (1987) 'Localisation of Japanese Subsidiaries in Southeast Asia,' Asia Pacific Journal of Management, 5(1), p.73, Table 8.

Table 3.4 indicates that decisions on local staff compensation rested very much with the local subsidiary, with the head office perceived by the affiliates' Japanese managers to have 'no to little' influence in setting salary levels and fringe benefits. This contrasts with an opposite situation for corporate planning and budgetary decisions, in which the headquarters involvement is much greater. When local (non-Japanese) managers were surveyed, a slightly different result emerged as shown in Table 3.5.

The tables show a common theme of a high level of subsidiary influence on salary setting and fringe benefits as perceived by the Japanese and local affiliate managers although the local managers did not perceive this influence to the same extent. Negandhi, Yuen and Eshghi (1987) observed that the lack of participation of local staff in decision making led to half the responses showing some or major difficulties

Table 3.5
Local Managers' Perception of Local Managers' Involvement in Decision Making in Japanese Subsidiaries in SE Asia (N=77)

	Responses as percentage of Total		
	No to Little Influence of Local Manager	**Medium Influence of Local Manager**	**High to Very High Influence of Local Manager**
Setting Salary Levels for Local Managers	17.10	26.32	56.58

Source: Extracted from Negandhi, A.R. Yuen, E.C. and Eshghi, G.S., (1987) 'Localisation of Japanese Subsidiaries in Southeast Asia,' Asia Pacific Journal of Management. 5(1), p.7,Table 10.

with the implementation of decisions made by the Japanese headquarters relating to salaries and benefits. In general, the affiliates were tightly controlled by head offices through the placement of Japanese expatriates, regular reporting and communication, and restriction of key decisions to expatriates. Nevertheless, the external environment appeared to play 'an important part in shaping the management style of local subsidiaries' (p.78). Researching these issues is complicated, however, by the fact that the relationship between head office and subsidiary may change over time (Evans, 1993).

A similar study, again using Japanese MNEs, was undertaken by Putti, Singh and Stoever (1993), who examined the degree of perceived autonomy and of localisation of 34 US, 28 European and 16 Japanese subsidiaries operating in Singapore. They hypothesised that the nationality of the MNE would be a significant factor. Seeking information on 26 types of decisions on a five-point scale, all three nationalities/groups saw themselves as having a high degree of autonomy, but gave a lower rating for the extent to which parent MNE practices had been adapted to the local situation. Autonomy does not, therefore, necessarily mean more management practices will be adapted. For all three nationalities, local wage and salary increases, union relations and employee benefits could be administered reasonably autonomously by subsidiaries. Executive benefits had more head office involvement in US and European MNEs, but were more often left to the affiliate for determination in the Japanese MNEs operating in Singapore. All MNE affiliates believed they had more autonomy on operational matters than on strategic ones (p.116).

From the research so far discussed, it appears that head office is more concerned about its contribution to compensation at the higher levels of the MNE, particularly expatriate PCNs and TCNs. The location of the decision on compensation for these staff is of some interest. Kuhne and Toyne (1985) researched 83 US owned and based MNEs to determine (1) where compensation policies and procedures for PCNs and TCNs were developed, (2) who financed the programs, and (3) who supervised and controlled the systems (p.35). The findings (pp.36–40) were:

- PCN and TCN compensation policy development was usually highly centralised in the head office or international division.
- Centralisation was positively correlated with the number of countries employing expatriates and the industrial diversity of the reporting MNEs.
- The financing of PCN and TCN programs was 'considerably less centralised' than were the policies and procedures (p.38).
- The supervision and control of PCN and TCN programs was usually centralised and monolithic.

This last finding was in line with a study by Martinez and Ricks, who found that (1989:483) US parent MNEs 'were more active' in the decision process for compensation of expatriates because expatriate salary determination is more costly and complex (p.483). In the context of this thesis, Kuhne and Toyne's (1985: 41–2) conclusion that responsibility for expatriate compensation programs 'is not determined by external pressures' but is more affected by the MNE's operational characteristics is significant.

Resource dependency and the possibility that the importance of the subsidiary to the MNE head office might affect the relationship between them has already been referred to. The Martinez and Ricks (1989) study of 115 Mexican subsidiaries of US owned MNEs with subsidiaries in Mexico used the hypothesis that the influence of the US parent on HRM decisions of the affiliate would be positively related to the extent to which the MNE headquarters provides resources to the subsidiary and, secondly, the importance of the affiliate. They indeed found a positive correlation, and resource dependence appeared to influence the involvement of the parent MNE in specific HRM decisions (p.476). Their conclusion was that compensation in the subsidiary could be handled at local level with approval of head office 'or in a combined effort between the parent company and the affiliate' (p.477). Headquarters' involvement seemed to depend on (1) 'the affiliate's resource dependence on the US parent', (2) 'the nationality of the affiliate managers', and (3) 'the type of ownership structure' (p.477). Martinez and Ricks were aware that in the study, some variables had been overlooked, that the observations were made at a single point in time, and that it applied only to Mexican subsidiaries (p.481). The survey also covered only US expatriate and local managers rather than a full range of staff.

Resource dependency was also a theme in another relevant study by Hannon, Ing-Chung Huang and Bih-Shiaw Jaw (1995:531) who analysed 100 subsidiaries of Japanese, American, European and Asian parent MNEs operating in Taiwan to determine how the tension between 'global integration and local responsiveness' affected the 'dimensions and determinants' of IHRM strategy. Compensation policy was one of the areas surveyed. They proposed hypotheses on inter-organisational independence, dependence on parents' and local resources, and ownership and dependence on host institutions. Their main findings were that 'dependence on parent's resources [was] associated with globally integrated strategies', that 'dependence on local resources [was] related to locally responsive IHR strategies', and that 'the influence of host institutions on IHR strategy [depended] on the level of the parent's ownership'. While this is a useful addition to the current integration–localisation debate, compensation policy is only handled as a general concept without the separation of policies for rank and file, and executives.

Finally on a larger scale, Rosenzweig and Nohria (1994) analysed the HRM practices of 249 US affiliates of foreign-based MNEs to identify the extent to which the practices resembled those of local firms or those of the parent MNE, or other global standards. The authors used six HRM practices for comparison: (1) extent of employee benefits, (2) amount of annual leave, (3) use of executive bonuses, (4) degree of participation in decision making, (5) gender composition of management, and (6) amount of employee training. Testing 13 hypotheses, Rosenzweig and Nohria found that all six HRM practices more closely resembled local than parent practices, with benefits, time off, training and gender composition being 'significantly closer to local practice' than they were to parent practice (p.241). The resemblance to local HRM practice was not related to the age or size of the affiliate, or the international experience of the parent MNE. HRM practices affecting the 'rank and file' and 'subject to clear norms' tended to resemble local HRM practice, whereas those affecting executives were 'relatively closer to the parent' (pp.245–6). Subsidiaries that were acquired by MNEs and depended on the local environment for inputs, tended to resemble local HRM practices. In comparison, where there were high numbers of expatriates and close communication with the parent MNE, the affiliate shared more practices of the parent (p.246).

Summing up then, this section has selected literature showing the relationship between the MNE head office and the subsidiary in the control of the affiliate's compensation system. Because of the limited number of IHRM studies in this area, generalisations are difficult to make. The difficulty for research is that the function and structures of subsidiaries vary with coordinating devices, which can be formal, informal or personal. Any explanation has to account for the level of head or regional office intervention and influence, which can range from none (complete subsidiary autonomy) to total (no affiliate autonomy). There are numerous variables to be included such as the nationality of the MNE owners, the degree of subsidiary embeddedness in business networks (Andersson & Forsgren, 1996), the interaction between subsidiaries, the dependence on head office for resources, the type of issue and employee involved, the life cycle of the affiliate and the cross-national and cross-cultural environment. However, even subsidiary autonomy may not necessarily mean that the affiliate will adapt to local conditions. From the studies which have been done, the general conclusion is that the subsidiary has a considerable degree of autonomy in the design of compensation systems for local industrial staff. The picture is less clear for management staff, as PCNs, TCNs and senior HCNs appear to attract more control. Employee benefits as (opposed to pay) may also be subject to different administrative devices. Generalised statements about whether compensation is completely centralised or decentralised are therefore likely to be inappropriate. It is more likely, as Hamill (1984) suggests for labour relations in the MNE, that each MNE will adopt a different compensation strategy according to the internal and external environment of each subsidiary.

Conclusion

The last two chapters have summarised the main literature on the external factors influencing compensation in a domestic organisation and the unique external environment facing an MNE subsidiary in designing its compensation system. This was all done within the context of the research question about the way the external environment influences the design of an affiliate's compensation system.

We accepted that the MNE is an open system, is conceptualised as an inter-organisational network embedded in an external network, and is subject to multiple sources of external authority. Its uniqueness is the location of its subsidiaries in different countries to which it has to adapt, and the relationship between the head office and affiliate and other subsidiaries, which can vary from nation to nation. There is a uniqueness about the economic, political and legislative environments facing an MNE, where, for example, the legislation and regulations affecting the MNE may be a combination of local host national, home country, regional and international obligations. To accommodate these, there is a tension in the MNE between obtaining conformity and consistency, and achieving local adaptation in its affiliates. In addition, any theoretical framework has to allow for corporate MNE strategy, national origin, the subsidiary's strategic role, inter-unit linkages and local sensitivity/strategy 'fit'. The complication is that MNEs may have strategies at different levels: domestic, foreign (country specific) and international. The strategies of two affiliates within the same MNE may be different.

The general literature on domestic compensation in Chapter 2 confirmed that the external environment should be included in any explanation of pay design. There was no ideal compensation system, as corporate strategies and contexts change over time. Moreover, the concept of 'fit' between business strategy, compensation, other HRM activities, environment and performance is problematical. The literature on life cycles and compensation is tentative, and does not distinguish clearly between product, market, industry and company life cycles. However, there is some evidence to link SBU compensation systems with diversification strategies.

There is little empirical work on environmental dimensions that might affect the compensation of a business unit. Management does have a choice of compensation systems, but this choice is not unlimited. Choices may be in clusters of practices or individually designed. They may form a part of an overall HRM strategy. Research on a direct link between compensation systems and an organisation's culture is not plentiful. Although there is evidence that societal changes have affected compensation systems (e.g. greater use of incentives in developed nations), linking the economic environment to internal compensation structures creates some difficulties. However, governments, through legislation, can have a direct effect on wage rates, hours of work and employee benefits (through tax legislation). But the process is not all one way; there is some evidence of MNEs' attempts to shape legislation and even compliance may become a matter of degree if laws, rules and codes are not enforced.

There is substantial research on the effect of union presence on compensation (including benefits), but it is difficult to formulate definitive theories in the absence of data from organisations that are identical save for the presence of unions. This challenge has now been expanded to compare industrial relations climates in organisations. The changes in compensation systems over the years appear to have been part-responses to the external environment, including unions, but we do not know how the information on the environment is processed or scanned by organisations, in particular by MNEs. The literature goes on to suggest that social, demographic, government philosophy, trade unions, collective bargaining and legal factors are likely to have a marked effect on employee benefit design.

In Chapter 3, the unique compensation issues of MNEs were considered. Some facets of MNE subsidiary compensation may be due to head office culture and MNE ownership characteristics, but it was not normally in the interests of the MNE to far exceed local compensation rates. Apart from matching local competitors and conforming with local legislation and infrastructure, the composition of subsidiary employee benefits could reflect national origin. But the types and levels of employee benefits usually vary significantly from country to country because local legislation particularly affects pensions, health cover and social security conditions of service; benefits have to be adapted accordingly.

Research is limited on several aspects of expatriate (PCN and TCN) and senior HCN compensation and HCN non-management levels, although there have been several recent works. There are indications that in some MNEs, head offices will administer international and expatriate conditions. For HCNs, the ILO surveys of MNEs in some industries suggest that collective bargaining (local or national agreements), the legal environment, government regulations, prevailing local practice and other companies are significant in subsidiary compensation design for HCNs. The MNE subsidiary is usually subject to the same host government rules on compensation design as apply to locally owned firms.

As we have shown, although there is a thriving literature on HRM in individual nations, there are only a limited number of studies on how 'exported' compensation patterns work in other countries and how culture affects their effectiveness. There are some hypotheses about which compensation designs are appropriate for particular cultures, but only a few empirical tests of these, especially in relation to performance of subsidiaries. There is a debate as to how critical national culture is in compensation design in relation to other institutional factors. We noted the general criticism of MNE IHRM research that it concentrates on US, Japanese and European organisations, with less attention to other Asian and Australasian MNEs and to other regions such as the Middle East, Africa and India.

According to the IHRM literature, the extent to which the external environment of a host country subsidiary could influence its compensation systems for HCNs, and the extent to which that system will follow local practices and/or those of the parent MNE appear to depend on the international business strategy of the MNE, the strategic role of the affiliate, its method of founding (e.g. greenfield investment or acquisition), the industry and host country characteristics, the structure and nationality of the MNE, the MNE's degree of dependence on the affiliate, the MNE's stage of internationalisation, the international orientation of its head office and its experience in managing international operations, the presence of expatriates, the frequency of communication between MNE parent and the subsidiary, the parent MNE and affiliate's cultural and legal distance, the inter-subsidiary linkages, and the employee groups in the affiliate who are crucial to its strategic effectiveness.

However, as mentioned before, there may be some relevant parent MNE policies that relate to corporate culture. For example, the literature suggests that an MNE head office may impose its policies on union recognition and collective bargaining on the subsidiary even though local legislation and general customs of host nations also affect MNE recognition of unions and the degree of influence that unions have at various levels. An MNE may have a better chance of transferring its preferred pay philosophy and systems into a new greenfield affiliate where the new recruits can be matched to the reward system, rather than into an acquired concern in which compensation is already integrated with the local environment.

We went on to show that the nature of MNE head office coordinating mechanisms may depend on the way subsidiaries interact with each other. Moreover, the type of coordinating mechanism used by the parent organisation may be dependent on the business strategy pursued by a subsidiary. From a research viewpoint, the complexity is that intervention by the parent company in IHRM decision making by the affiliate seems to vary according to the issue and the level and type of employee (e.g. HCN, PCN, or TCN), and could be open to negotiation, rather than being a one way direction. Thus the effect of the local environment on subsidiary compensation has to be analysed for each element of compensation (including benefits) as well as for each HCN, PCN and TCN occupation, and against a background of relationships with other affiliates and the head office. That is the significant challenge for IHRM research because, arguably, performance is maximised when the subsidiary compensation system for all employee groups fits the internal MNE factors and is adapted effectively to the host nation external environment. While much of the relevant (and excellent) IHRM research so far has used survey methods, it is recognised that these show the position at one point in time only, and cannot show the dynamism of the process and its fluctuations over time to give a full explanation of MNE responses to changing internal and external conditions. Nevertheless, any research methodology has difficulty in isolating and assessing the impact of the various elements of the internal and external environment.

CHAPTER FOUR

RESEARCH DESIGN AND METHODOLOGY

The Research Questions

The objective of this thesis is to explain the relative influence of elements of the external environment on subsidiary compensation design with a view to generating an explanatory framework and set of propositions based on case study findings and existing literature. The central guiding research question for the thesis is:
How does the external environment of an MNE subsidiary influence the design of its compensation system?

To maximise theory generation from the findings of the case studies undertaken, Eeisenhartdt, (1989:536) advises that it is important that a case analysis should start with a 'clean theoretical slate' as far as possible, in order not to limit or bias the findings. However, this is usually impossible to achieve so at most, researchers should specify some 'potentially important variables' from the current literature (p.536). From the review of the literature on MNE compensation in Chapter 3, while not excluding any other possible features, it appeared that there are some key elements of the external environment which are a priori relevant to the research question and which could be incorporated into the analysis of each pair of case studies and the cross-case conclusions. The first is the effect of host country employment legislation on subsidiary compensation design. Although the exact relationship cannot be specified at this stage and should emerge from the cases, prima facie, one might assume that the MNE would design its compensation to meet legislative requirements and international codified standards (Milkovich & Newman, 1996; ILO, 1977c; 1991b), that tax laws might affect the composition of compensation (Dowling, Welch & Schuler, 1999), and that any mandatory minimum wage or bonus would be included in the affiliate's compensation design considerations. This leads to the first research question:

Research Question 1

How does employment legislation affect the compensation design of an MNE subsidiary?

The impact of the economic environment on compensation design is problematical, but the state of the host country economy may affect the internal structure of the pay system because of the differing demands for the range of skills in the labour market (Milkovich & Newman, 1996). Macroeconomic policy of governments may also affect a range of factors such as the expectations of employees for compensation increases, the power of unions, and the discretion for unions and management in compensation setting under an incomes policy (Kochan & Barocci, 1985). This leads to the second research question:

Research Question 2

How does the economy affect the compensation design of an MNE subsidiary?

There is debate about the extent to which MNEs should attempt to align their compensation systems to host country national culture (see Gomez-Mejia & Welbourne, 1991; Huo & Steers, 1993). The issue is how much discretion national cultural factors might allow an MNE to choose compensation systems that facilitate both global and subsidiaries business strategies at the same time. Empirical work by Newman and Nollen (1996) suggests that MNEs should take national culture as a 'given' and design managerial practices accordingly (p.774). This leads to the third research question:

Research Question 3

How does national culture affect the compensation design of an MNE subsidiary?

Jackson and Schuler (1995) argue that national culture cannot explain all HRM differences across countries and that variations may be due to differences in economic, political, legal, labour markets, industry characteristics, and industrial relations systems (p.253). It has already been noted that unions may have a broad impact on compensation policy (Balkin, 1989), and that the extent to which a MNE recognises unions for bargaining purposes may depend on host country legislation (Brewster, 1995) and MNE head office orientation (Bean, 1994). Inevitably an MNE will face unique employment legislation, custom and practice, union movements and industrial institutions in each host country in which it operates. This leads to the fourth research question:

Research Question 4

How does the industrial relations system affect the compensation design of an MNE subsidiary?

While not a part of the external environment facing a subsidiary as defined earlier, the role and orientation of the MNE head office is likely to be a 'significant influence' on compensation practices in a subsidiary (Schuler, Dowling & De Cieri, 1993: 749). The orientation may determine the discretion that affiliate management has in deciding its own compensation system in the context of its local environment. It was noted in Chapter 3 that decisive intervention by the parent company in the subsidiary's choice of compensation may vary according to the element of compensation in question (Van Den Bulcke & Halsberghe, 1984; Hamill, 1984). There has been little research which has examined how a head office controls the compensation design of HCNs, PCNs, and TCNs, particular occupations, and specific elements of the compensation system in relation to a subsidiary's external environment. This leads to a fifth research question:

Research Question 5

How does the MNE head office international orientation affect the choice of compensation design in a subsidiary?

In relation to the different country external environments of each pair of subsidiaries, what should emerge is how MNEs handle the integration and differentiation of pay systems and how they are integrated, controlled and co-ordinated (Schuler, Dowling & De Cieri, 1993). The degree of affiliate autonomy in determining compensation systems and the nature of compensation policies and practices in interunit linkages are crucial in this.

In terms of internal operations of the MNE, the other variables are the balance of the 'competitive strategy imperative' with the 'cultural imperative' (Schuler, Dowling & De Cieri, 1993: 735). The business strategy of the MNE and subsidiary is not discussed in detail in this thesis as it was decided that a full analysis of corporate strategy of the MNEs studied could only be achieved by discussions with corporate head office personnel. Such interviews were beyond resources available as two MNE head offices were in Europe. However, the 'cultural imperative' encompassing aspects of the local culture, economy, legal system, religious beliefs and education are addressed (Schuler, Dowling & De Cieri, 1993: 735). The effects of exogenous factors including industry characteristics and, in particular, country characteristics are considered in detail. Other variables are also relevant to the thesis. These issues are the orientation of the MNE head office HRM function towards compensation in affiliates (already selected as a research question) and the location of the HRM function. In relation to SIHRM policies and practices, questions are posed about the extent to which the MNE lays down general or specific policies for subsidiary compensation. In the thesis, the main focus is thus the impact of the exogenous elements on subsidiary compensation design. Endogenous factors are not addressed in the same detail. However, the implications of the close interaction of endogenous (such as headquarters' international orientation) and exogenous (political, economic, legal and socio–cultural) factors on compensation systems are discussed.

This research takes up the challenge of Ricks (1993) and Adler and Boyaciggiler (1996:543) that international management research and organisational behaviour respectively need to adopt more multi-level approaches that 'explicitly incorporate aspects of the external environment'. However, the researcher acknowledges that trying to gain a full understanding of cross-national management behaviour by 'looking simultaneously at economic, social, political, and cultural factors' is a somewhat 'grand expectation' (Peterson, 1993:15). The impact of each of these elements on cross-national management could provide a major study itself.

The Use of a Qualitative Research Design

The research design for the thesis is based on a qualitative approach and the use of case studies in particular. Qualitative research is not conducted according to an agreed set of methods (Marshall & Rossman, 1989), but it has usually encompassed the terms 'descriptive study' 'field research', 'participant observation' and 'case study' (Wright, 1996). Tesch (1990:55) states that, to be precise, there is 'no such thing as qualitative research' — only qualitative data, defined as any information that is not expressed in numbers. It is pointless to debate here whether a quantitative approach to this study would have been more rigorous (Wright, 1996). Both qualitative and quantitative data have a place in research (Downey & Ireland, 1983). The use of the qualitative research design is frequently defended by the 'promise of quality, depth and richness in the research findings' (Marshall & Rossman, 1989:19) and its appropriateness for exploratory studies (Hakim, 1987). Downey and Ireland (1983) advance an argument (which is accepted here) for using qualitative research methods to assess the attributes of an external environment for their relevance before attempting to use quantitative methods to measure the participants' interpretations of those attributes. In this study, the qualitative research approach also had the advantage of providing flexibility for the researcher, who was able to explore some unexpected features and relationships in MNE compensation once the research was under way.

A qualitative approach could also be justified by distinguishing between theory generation and theory verification (Glaser & Strauss, 1967). As theoretical understanding of international management is at an early stage, the objective of this project is to generate some propositions grounded in comparative data. At a later stage, quantitative methods could be applied to aid understanding of the interaction and effect of variables, and to test and verify them (Wright, 1996). Wright propounds that 'the process of data collection and analysis and theory generation are much more closely linked in qualitative than in quantitative research' (p.69). Secondly, qualitative research can accommodate data from a variety of sources and a range of issues that may interact and be dynamic (p.69). Third, a qualitative approach affords the researcher some flexibility as to 'why' and 'how' issues occur and not just 'what' (p.70). Many international management topics are 'complex, unstructured problems' that cannot be studied quickly (p.72). In particular, in case studies, it may be easier to see how parts integrate to form a whole (p.71). Against this, however, stands the criticism that the qualitative approach in international management research has resulted in many qualitative studies which have not built on established theory (Wright, 1996). In this study, an attempt has been made to place the research in the context of existing literature on MNEs, IHRM and compensation.

The Phrasing of the Research Questions

Central and subsidiary 'how' questions were used throughout to guide the research (Yin, 1989). Strauss and Corbin (1990:37), in their text on grounded theory, suggest that the research question should be phrased to give 'the flexibility and freedom to explore a phenomenon in depth'. It should not be so broad as to be unmanageable, but not too narrow as to restrict 'discovery'. The central research question for this thesis **('How does the external environment of an MNE subsidiary influence the design of its compensation system?')** identifies the phenomena to be studied and is oriented towards action and process (Strauss & Corbin,1990: 38). For example, if the local environment changed, how did the compensation practices of the corporate MNE and its subsidiaries react? While Strauss and Corbin (1990) posit that a theoretical framework should ideally evolve from the research itself rather than using existing theories, the latter is acceptable if the purpose is 'to open these up and to find new meanings in them' (p.50). It is in this context that the propositions of Hodgetts and Luthans (1993b) shown in Table 4.1 (p.132) were selected and adapted for testing in relation to the Research Question 3 on the influence of national culture on compensation design.

The central guiding research question assumes that the external environment has particular properties. These properties affect a particular compensation system — a system with specific dimensions within a particular context, and with intervening conditions (such as subsidiary size and technical process) that may facilitate or constrain the interactional strategies adopted within a particular context (i.e. managing the compensation system). Placing compensation management in this analytical context can accommodate change occurring within the conditions (the environment) or the intervening variables (Strauss & Corbin, 1990).

Elements of the external environment normally incorporated in HRM models have already been discussed in Chapters 2 and 3. The problem in examining these separately is that the interaction between, say, the economy, unions, industrial tribunals and national culture can be overlooked. This thesis focuses on the way the companies appeared to adjust to the different environmental variables and on the main differences and similarities in compensation between the home and host nation affiliates. Because the researcher gave a guarantee that the actual wage and salary figures which were not already published in public documents like awards would not be sought (and probably would have not been provided anyway), the emphasis of the research was on the main practices of the compensation system. The thesis concentrated on the detection, identification, classification and interpretation of similarities and differences of the compensation systems of the case study MNE subsidiaries.

A Comment on Culture

In international comparative studies the concept of culture has been problematical. Adler and Boyaciggiler (1996:546), for example, argue that past cross-cultural management research is not global organisational behaviour research. The cross-cultural inquiry had 'limited itself primarily to multidomestic definitions of organizational phenomena' and had ignored the 'issues of cross-border interaction and integration', or had over-emphasised the effects of culture, or had had trouble in defining 'the concept of culture itself'.

Historically, a large number of international studies have used culture as an independent variable and as an equivalent to 'nation' (Boyaciggiler, Kleinberg, Phillips & Sackman,1996). The same approach has been adopted in this thesis because of its cross-national nature. The researcher was aware that this is not ideal because of the possibilities of 'cultures within cultures', but Boyaciggiler et al. are of the view that with our present state of knowledge, we are still asking whether organisational science is transferable across countries. Moreover, there will continue to be a need for 'studies that focus on nation-based culture' as variations at country level are still important (p.167).

Naturally, there is the danger of assuming culture to be 'a given, single, and permanent characteristic of an individual' (p.168) whereas the level of analysis should be clarified. One question, for example, is how different cultures might affect the individual as well as the organisation (p.168). The goal of this thesis is not to conclude how culture might influence behaviour or the design of compensation systems, but to suggest a proposition to this end. It is too easy, as Dorfman

(1996:321) suggests, to assume that culture is 'the root cause of cross-national differences'. Hence in the thesis it is acknowledged that other external factors and internal variables may influence compensation design. Moreover, culture may even affect the other external environmental factors, making the isolation of these for analysis very difficult. Dorfman (1996) states that one way to deal with this problem is to match samples for nations studied as closely as possible, recognising that obtaining identical samples is likely to be impossible, and to examine other likely variables that could influence the outcome.

In this study, much preliminary reading and several interviews were undertaken to learn about Singaporean culture. The empirical basis to facilitate the cross-national comparison of Australia and Singapore was the Hofstede (1980) typology of culture. As noted before, the Hofstede typology is not without its critics (Dorfman & Howell, 1988; Roberts & Boyacigiller, 1984). However, the 'quantitative' dimensions of this typology do allow the calculations of the 'cultural distance' between the two countries, and there are precedents for using this approach in IHRM (Schuler & Rogovsky, 1998) as well as in accounting (Gray, Radebaugh & Roberts, 1990) and strategy research (Li & Guisinger, 1991). The work of Trompenaars (1994) is also referred to as a second piece of (more recent) empirical evidence to evaluate the differences in culture between Australia and Singapore in Chapters 5 and 6, although Trompensaars uses additional dimensions.

Earley and Singh (1995:333) describe four approaches to international or intercultural management research. They include the Gestalt form, in which the emphasis is on analysing the systems as a whole without dividing it into parts. The other is the reduced form, where breaking the system down into parts assists in the explanation of processes. In this study, the reduced form is mainly used to discuss the elements in the external environment, but the discussion is placed in a cultural context, and some link of culture to compensation is considered — culture is not regulated to 'black box' status (p.334).

The Stages of the Research

The stages in the research for the project roughly followed the progression of overlapping steps suggested by Wright, Lane and Beamish (1988:65) for conducting an international field research project, namely:

1. The guiding research problem, conceptual definitions and case study methodology were determined.
2. The literature review on IHRM, compensation, MNEs and the Singaporean and Australian environments was undertaken from sources in Australia and Singapore over a period of four years (1991–94), and subsequently updated with material available as at October 1998.
3. Initial contact was made with MNE head offices and subsidiaries in Australia and Singapore.
4. Some initial interviews were held with Australian-based MNEs to define the units for analysis.
5. The final list of MNEs and comparative cases for study was compiled. In addition, two subsidiaries in Singapore agreed to be studied even though their Australian counterparts had refused. (It was decided to interview in these companies first to gain experience and to generate background Singaporean compensation data on other organisations which could be used subsequently to refine the interview checklist).
6. Checklists of issues and formats for recording answers were designed for the semi-structured interviews, and profiles for data on employee benefits were prepared. These are shown in Appendices 4.1 and 4.2.
7. The first round of interviewing in the Australian-based MNE subsidiaries was carried out in 1992. Interviews in Singapore were undertaken in two 5–week blocks in 1992. While the researcher was in Singapore, secondary data were collected from a number of sources, and interviews were conducted with a range of consultants, unionists, expatriate Australian managers, employer associations and government officials.
8. The writing up of case material continued through the period 1992–95 and was finally edited in 1999.
9. A second round of interviews for all companies was undertaken in two blocks in Singapore and Australia in the second half of 1995. Recently published literature and

statistics on Singapore were collected during five short business visits to Singapore from 1996–99.

10. The case study data were analysed and a format for presentation developed.

11. An explanatory framework and set of propositions were generated from the case studies and existing literature.

The cut-off date for the case data and description of the external environment of Singapore and Australia (Chapters 5 and 6) was 31 August 1995, but some relevant issues occurring after 1995 are also discussed.

Rationale for the Use of Case Study Design

After weighing up the range of research methodologies available for the study, the case study method was selected as the main data source. Every research method has drawbacks, but with the objective of the study in mind, the case approach had some advantages over, say, a mailed questionnaire survey. Although the case study has been stereotyped as 'the weak sibling' among social science research methods, it continues to be used widely in social science research and in dissertations (Yin, 1989:10). In fact, Yin (1989:12) argues that international researchers have 'rediscovered the importance of the case study as a serious research tool' (p.12). Examples of case study research which incorporate international HRM include the work of Dore (1973), Littler (1982), Gospel and Littler (1983), Ackroyd, Burrell, Hughes and Whitaker (1988), Briggs (1988), Dowling and Welch (1988), Von Glinow and Teagarden (1988), Gleave and Oliver (1990), Saha (1993), Love, Bishop, Heinisch and Montei (1994), Easterby-Smith, Malina and Yuan (1995) and Festing (1997).

Plowman (1991:23) states that the case study is often used in industrial relations research and enables 'a somewhat eclectic approach to data collection', facilitating the drawing up of 'a detailed set of relationships' useful for developing theory from preliminary investigations. Mintzberg (1979) has also defended his field method of researching the role of managers, arguing that his descriptions of managerial activity challenged 'accepted wisdom' and yielded 'more useful results' (p.583). The results were used in a 'purely inductive' way, and could happily be referred to as 'exploratory' as long as this term was not used in a derogatory way (p.584). Miles (1979:590) found qualitative data 'attractive' because of its richness, limited need for 'front–end instrumentation' and possibility of 'serendipitous findings'. Against that was the high labour intensity of the collection of the data, 'the sheer range of phenomena to be observed', the time taken in writing up, and more seriously, the lack of 'clear conventions' to protect the data from unreliable or invalid conclusions (p.590).

According to Yin (1989), the case study should not be seen in a hierarchy of research methods and should not be relegated to the class of 'exploratory' investigations (p.15). Research approaches incorporating 'how' and 'why' questions are more explanatory and lend themselves to the case study method (p.18). The case study approach also attempts to deal with phenomena and contexts over time — something for which the survey method is 'extremely limited' (p.23). The prejudice against case studies is that they may lack rigour and include bias, provide little basis for generalisation and are occasionally over-long (pp.21–2). This is further reflected to some extent in Wallace (1983), who discusses personnel and industrial relations research methodology in 'consecutive levels' beginning with the exploratory design and case study and moving to experimental designs (p.7). However, Dyer (1984) advocates the use of case studies to show the links between organisational strategies and HRM strategies. Case studies using longitudinal or retrospective designs can be useful in showing 'the dynamic nature of strategy and strategy-making processes' (Dyer, 1984:167), although in this study the change in compensation over time was a 'series of snapshots' rather than a continuous process (McNeill, 1985). Nevertheless, a longitudinal design does permit the identification and analysis of any patterns that are occurring (Minichiello et al., 1995:170). This is not to say that survey techniques are inappropriate; surveys can supplement the intensive case data rather than being the main data source, as is now typically the case (p.167).

The seeking of data in some case studies about compensation systems used in the past did assist in the understanding of the present and likely future compensation systems (Van Maanen, 1983). Against this, of course, extending the study over a long period has the potential practical disadvantage that personnel initially interviewed may resign, and the company itself may even change hands, as happened in one of the cases in this study.

The case method was chosen for this thesis because it is concerned with complex phenomena in a real-life context. Where possible, data have been collected to show the development of compensation systems of selected employee categories over time. As the research is about the interaction between the environment and compensation systems, attempts are made to examine 'the dynamics present within single settings' (Eisenhardt, 1989:534). Second, the research deals with an area of HRM (especially at managerial levels) that is of some sensitivity. As Weber and Rynes (1991:92) pointed out, using methods such as field surveys for compensation research is inappropriate on a large scale because 'companies typically regard information about pay strategies, pay-setting processes, and job pay levels as highly sensitive and proprietary'. The case method enables the researcher to build a level of trust with the organisation and provide assurances on confidentiality.

On the other hand, it is accepted that statistical generalisations from five comparative cases cannot be made, and that this weakness can only be minimised by using comparative cases in which the features of companies are as close to identical as possible (Wright, 1996). Rigour can be improved by negative case analysis in which propositions or hypotheses are constantly revised as the research progresses, negative cases are found (Minichiello, 1995), and revised propositions are checked against all past data as well as future data (Wright, 1996).

Research Methodology

In choosing a case study methodology for a study of MNE subsidiary compensation, a number options were available. The first was to study a single MNE subsidiary as a holistic case. The assumption of the single case is that the unit for study is a unique and relevatory one representing a '*critical case*' and meeting all the conditions for testing a well-formulated theory' (Yin, 1989: 47–9). Apart from the difficulty of finding a suitable MNE affiliate, there is a danger that changes in the subsidiary over time may make the initial research design inappropriate (Yin, 1989). Moreover, at the present state of development of IHRM theory, this was considered an inappropriate method. The alternative was to select, as an embedded case, a single MNE that had a number of subsidiaries located in different countries, and to compare the compensation practices in each affiliate. While this has the advantage of reducing the number of variables for comparison (such as differences in industry, product and technology), and providing more data for inter-subsidiary comparisons, from the researcher's viewpoint, detailed knowledge of the features of the external environment of each country would be needed to assess the environmental impact on compensation. The number of countries selected would also depend on time and resources available. However, if this approach was limited to two subsidiaries in two countries only, it would be it easier to isolate and identify the inter-linkages of the external environmental elements. According to Yin (1989), one caution to be observed is the possibility of ignoring the holistic aspects of the MNE through over-emphasis on detail of the sub-units (p.52). For example, the interlinking of the corporate strategy of the MNE with the role of subsidiaries may be overlooked because of a concentration on business strategies of the affiliates.

A further option for the methodology was to study various combinations of two or more MNEs with subsidiaries located in two or more countries. For this project, five MNEs were chosen that had subsidiaries and companies in both Singapore and Australia. The number of countries was limited to two because of the scope and cost of this project. The five MNE (and ten case sites) represent the research sample, the term 'sample' being used here in the theoretical rather than statistical sense. According to Eisenhardt (1989:537), cases can be selected to 'replicate previous cases', 'extend emergent theory', 'fill theoretical categories', or 'provide examples of polar types'. Eisenhardt suggested that cases should be chosen to provide 'extreme situations and polar types' that are likely to 'replicate or extend the emergent theory' (p.537). However, Eisenhardt's suggestion was not followed entirely as it was decided to focus on private sector MNEs only; government owned, religious and international non-profit organisations were eliminated from selection. This choice was made to exclude extra variables that would have had to be considered in non-commercial organisations alongside commercial ones.

There was no attempt to generalise statistically from the cases. Rather, the five MNEs (ten cases) are considered to be 'multiple experiments' (Yin, 1989:38) leading to 'analytic generalisation' (p.38). Thus 'if two or more cases are shown to support the same theory, replication can be claimed' (p.38). The essence of analytic generalisation is the attempt to 'generalise a particular set of results to a broader theory' (p.44) through the replication of findings through a series of cases.

Sampling logic was not part of the decision to choose five MNE cases for study, but the number of cases is relevant in terms of literal and theoretical replication (Yin, 1989). The higher the number of cases, the greater the certainty in the replication (p.57). Based on the literature, the initial expectation was that the findings on the influence of the external environment on the compensation design in each of the subsidiaries would be similar (literal replication). For example, one would expect that socially responsible MNEs would normally observe legislation of the host or home country relating to compensation irrespective of the nationality of the MNE. The findings of each case were taken as the data needing replication in the subsequent cases (Yin, 1989:57). No attempt was made to choose MNEs that might produce contrary results for predictable reasons (theoretical replication) because of the time and scope constraints in studying more than five MNEs, and because of the limited number of empirically tested theories of MNE compensation.

The selection of companies for study was seen as crucial because the cases represent the theoretical research sample and the limits for generalising from the findings (Eisenhardt, 1989). The main criterion for selection of MNEs for the study was the presence of operations located in both Australia and Singapore. While an ideal scenario would have been a number of Australian owned MNEs with a head office and subsidiary situated in Australia and with an affiliate in Singapore, a number of factors such as access, freedom to investigate and a variety of sizes and products mainly determined the selection of companies. In some cases, the Singapore affiliate was willing to cooperate, but a negative response was received in Australia. This particularly applied to small Australian privately owned MNEs. The eventual outcome happily provided a range of five MNEs in a variety of industries. They varied markedly in size and ownership patterns and so provided good contrasts for analysis. The MNEs and affiliates are given pseudonyms in the thesis, as explained below.

As mentioned earlier, the desired outcome from the data of the study was an explanatory framework and a set of propositions that were validly and logically grounded on the case findings and developed from the existing literature, and that were likely to provide a strong lead for further research in the area (Yin, 1989). Proposition building and testing are seen as useful intermediary steps in theory construction (Negandhi & Prasad, 1971).

Apart from choosing the two countries for study, the initial interviews with personnel in the Australian operations clarified which parts of the subsidiaries would be used as the unit for analysis. Some of the MNEs in Australia had businesses located in several states, and one had a number of locations in the state of Victoria. Time and money would not allow analysis of the inter-subsidiary linkages of affiliates located in Singapore and Australia. Had that course been adopted, the scale of the project would have been considerably increased; clearly further research along those lines could follow on from this study [1]

The units selected for study are defined in the cases themselves, but wherever possible, similar structures for comparison were chosen in Australia and Singapore. The level of analysis is thus at business unit production level together with the head office where relevant. In the cases of 'Oilco' and 'Foodco', the global head offices are situated in Europe, and it was beyond the resources of this project to visit these offices. The analysis of the HRM external environment is at a macro level for both nations.

The main data-gathering method for the MNEs was a semi-structured interview using a recording check-list of headings of issues, a copy of which is shown in Appendix 4.1. A profile to gather detailed information on employee benefits was also used, as shown in Appendix 4.2, and respondents were asked to indicate and elaborate on the benefits that were offered in their subsidiaries. Other sources included copies of publicly available collective agreements, company reports, and newspaper cuttings.

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[1] In that regard, as a pilot study, a brief visit was made to a second subsidiary of the company with the pseudonym of 'Buildo' in Singapore..

By applying the Algorithmic and Experiential Summary Profile of Compensation Patterns of Gomez-Mejia and Balkin (1992) (shown in Appendix 4.3) to each compensation system in the case subsidiaries, it was possible to establish a pattern for cross-case comparison (Eisenhardt, 1989). The application also provided a measurement of the extent to which the compensation systems were Algorithmic or Experiential thus showing inter-case similarities and differences. From the complete list of compensation features in the Patterns, 'Superior Dependency' is not used in this study because of the lack of a definition in the text to assist in the classification of the case data.

The Algorithmic and Experiential Summary Profile of Compensation Patterns of Gomez-Mejia and Balkin (1992) is used in this research because empirical research undertaken in the United States suggests that organisations tend to choose meaningful clusters of pay features that are internally consistent rather than designing compensation systems based on each feature in isolation (Gomez-Mejia and Balkin, 1992: 60). Based on a review of 18 compensation articles over a fifteen year period and an empirical study of pay choices of 243 firms, the authors extracted two dominant pay patterns, one which they termed 'mechanistic' or 'Algorithmic' (because of its emphasis on formal rules and procedures to 'routinize' decision making and encourage standardise decision making across an organisation) and the other, 'organic' or 'Experiential' (because of its greater response to varying conditions, contingencies and individual situations)(pp. 60–6).

The advantage of the Algorithmic and Experiential classifications is that 19 individual features of a pay system can be categorised and compared between subsidiaries together with an overall profile summary. The pattern can be completely Algorithmic or Experiential in every feature of a company's compensation system, or, as is more likely to be the case, have elements of both. The complete Algorithmic and Experiential categories are two poles on a continuum, and totalling each decision choice can show the extent to which the compensation system is either Algorithmic or Experiential. In assessing the effect of the environment on pay systems, rather than treating all pay systems in a MNE subsidiary as one generic whole, one might anticipate that the environment might affect each feature of compensation in different ways. In addition, the nature of each element of an occupation's compensation system can also be shown separately as has been done in the cases.

It is accepted that there is some danger of ethnocentricism in applying a Western model to Asian systems (Peterson, 1993), but no assumption is made that one pay system is superior to another. While it is also acknowledged that the Algorithmic or Experiential pay patterns are US orientated, and that management in Australian and Singaporean subsidiaries and companies may not make compensation choices in consistent clusters, the patterns do provide a convenient mechanism for analysing the convergence or divergence of pay systems internationally.

Alternative classifications that could have been used in the thesis to classify the comparative compensation systems include the headquarters' international orientation (i.e. ethnocentric, polycentric or geocentric) for each occupational pay system. This, however, is too broad a classification for the purposes of this study. Other international approaches such as the 'going rate' and the 'balance sheet' are predominantly used in the explanation of expatriate compensation (Dowling, Welch & Schuler, 1999) and are largely unsuitable for discussion of HCN pay. The Algorithmic and Experiential labels can be applied to expatriates in any case, as the compensation of an expatriate can be analysed in terms of whether the basic pay is based, for example, on skill, job factors, performance or a combination of each.

The data on compensation systems of the case study companies are also used to test some of Hodgetts & Luthans' (1993b:42) recommendations relating to compensation and national culture (as adapted by Gomez-Mejia and Welbourne [1991], and Schuler & Rogovsky [1998]). These recommendations have the status of propositions and are an attempt to suggest which compensation features would be most effective in particular national cultures whose dimensions are based on the findings of Hofstede (1980). It was decided to test these propositions in addition to drawing general conclusions in each case chapter because they cover the whole range of compensation system elements and because the effect of national culture on MNE affiliate choices is a source of current debate. The nature of compensation systems in some countries in relation to the Hofstede (1980) dimensions has recently been tested empirically (see, for example, Schuler & Rogovsky, 1998), as noted earlier. For each of the cases, the features of each main occupational compensation system are compared with the propositions and the degree of support for the propositions shown. No attempt is made to generalise the support to the status of a statistical sample supporting a hypothesis, as the degree of support is applied more in an 'analytic generalization' way (Yin, 1989:38). Here the case study data are compared against a pre-existing template, and literal or theoretical replication may follow (p.53).

It is accepted that the recommendations of Hodgetts and Luthans are designed to apply to local *managers* only, but they are generalised to apply to all staff in this thesis. The reason for doing so is this researcher's initial assumption that national culture, if it is an influence, would be likely to have an impact on the compensation systems of all local staff and not just on the managerial staff. There are problems of classification of the pay systems in that the Hodgetts and Luthans (1993b) pay propositions are not always specific. For example, in high Masculinity cultures (Hofstede, 1980), they suggest the 'MNE should pursue a compensation strategy for local managers that recognises and rewards competitiveness, aggressiveness and dominance' (p.44). Therefore, to add further specificity to some dimensions, there is some reliance on Gomez-Mejia and Welbourne's (1991) and Schuler and Rogovsky's (1998) extrapolation of Hofstede's (1980) dimensions to compensation. Table 4.1 shows the compensation indicators used in the compensation analysis of the MNE subsidiaries in Australia and Singapore to reflect Hofstede's (1980) cultural dimensions.

It is recognised that the selected compensation indicators shown in Table 4.1 are used as representations only of major national cultural dimensions, and that there are differences, as mentioned earlier, as to how dimensions such as Masculinity should be reflected in particular employee benefits. Another caution by Gerhart, Minsoff and Olsen (1995:545) is also noted in relation to the Hofstede (1980) dimensions of culture that 'average differences in culture are just that, averages, and should not necessarily be viewed as factors that must be taken as a given'. For this study, 'decentralised pay policies' is interpreted as the degree of centralisation of the compensation system in relation to the structures of the MNE affiliates, and not the whole corporate MNEs, of which three were Australian and two were non-Australian. 'Many family benefits' was judged on how many benefits, definable as 'family- or

Table 4.1

Recommended Compensation Features for National Cultural Dimensions

Hofstede Dimension	Recommended Compensation
Moderately Low Power Distance (Australia)	• Low salary gaps between lowest and highest paid • Low benefits gaps between lowest and highest paid • Gain-sharing • Profit-sharing
High Power Distance (Singapore)	• Hierarchical compensation strategy • Pay and benefits tied to place in structure • Large salary gaps between lowest and highest paid
High Individualism (Australia)	• Individual performance-based • External equity/competitiveness • Emphasis on short-term achievements
Low Individualism (Singapore)	• Group compensation plans • Seniority-based pay
Moderately High Masculinity (Australia)	• Few family benefits • Gender pay differences
Moderately Low Masculinity (Singapore)	• Many family benefits • Quality of worklife emphasis • No gender pay differences
Moderately Weak (Australia)/ Weak Uncertainty Avoidance (Singapore)	• Emphasis on performance • Sharing of risk associated with MNE's success or failure • Competitive salaries to avoid poaching of staff • Decentralised pay policies

Note: Dimensions are based on Hofstede(1980). Recommended compensation adapted from Hodgetts and Luthans (1993b), Gomez-Mejia and Welbourne (1991), and Schuler and Rogovsky (1998).

female-friendly', were provided by the MNE in addition to those which are mandatory or set by industrial tribunals. The term 'family- or female-friendly' is defined as those benefits 'that support or assist employees in managing the dual responsibilities of work and family life' (ACIRRT, 1998:32).

The only mandatory 'family' benefit in Singapore is maternity leave under the Employment Act, which provides for eight weeks paid leave. In Australia, the situation is more complex, but under an Australian Industrial Relations Commission (AIRC) test case (AIRC, 1990:36 IR 1), unpaid parental leave was allowed for up to twelve months in awards. This was reinforced by a similar entitlement in the Industrial Relations Reform Act 1993 (Section 170KA[3]). Carer's leave was also another AIRC test case (AIRC, 1995) whereby five days from an aggregate of paid sick and bereavement leave entitlement could be used for caring for a sick family member. This had not been subsequently incorporated into legislation by the August 1995 cut-off date for this study, and so had to be negotiated and included in awards or enterprise agreements to have a legally-enforceable status. Alternatively, annual leave or unpaid leave could be used. Therefore, 'many family benefits' of Table 4.1 is taken to mean the offering of a majority (at least four) of the following seven additional benefits:

- paid carer's leave
- child-care facilities at workplace
- flexible working hours
- health care for family members
- paid marriage leave
- paid paternity leave
- unpaid leave (in Singapore)

There are conclusions drawn in each case about the possible role of exogenous factors in each MNE subsidiary's compensation system. These conclusions do not, of course, have the status of a set of findings that can support or refute hypotheses about the effect of the external environment on pay. Ideally, it would have been useful to trace the changes in compensation systems of each subsidiary and relevant head office prior to 1992, but the limiting factors here were cost, and getting access to staff who knew the history of the compensation systems. As mentioned earlier, the first round of interviews took place in 1992, and the second round in the second half of 1995, with a cut-off date for the study of 31 August, 1995. By library research, it was possible to obtain some past published collective agreements relevant to Oilco Australia, Oilco Singapore, Foodco Australia, Buildo Australia and Metalco Australia. In some cases, these went back 25 years and were incorporated into the case findings.

The study of the external environments of Singapore and Australia was undertaken using a combination of published texts, annual reference books, journals, theses, government statistics, and reports. In addition, while the researcher was in Singapore, to gain knowledge of the general state of human resource management in Singapore, interviews were carried out with Singapore Department of Labour officials, the Registrar of the Industrial Court, Australian Consulate officials, representatives from management, employers and HR professional institutions, expatriate Australian managers working for Australian MNEs not connected with the study, National Trade Union Congress officials, local management consultants (Hay Ltd. and Towers, Perrin, Forster & Crosby Ltd.), and some academics. The data gained in these interviews was mainly used in Chapter 5 of the thesis. The interviewees were not expected to have a detailed knowledge of the basis of the management decisions on compensation systems in the case study companies. Problems were experienced with the continuity of Singaporean national statistics and information on the industrial relations situation at macro level for the first 10 years after the founding of Singapore, after its separation from Malaya. Since that time, the published national data have been much enriched and standardised, and local academic HRM research is beginning to emerge.

The full list of the positions of people interviewed for the cases is shown in the case reports in Table 4.2.

Table 4.2
Number of Interviews with Case Study Interviewees

MNE Company/Subsidiary	Number of Interviews	Interviewee
Oilco Australia	4	Remuneration Manager
	1	Industrial Relations Manager
Oilco Singapore	1	Director of Personnel
	2	Industrial Relations Manager
	1	Refinery Personnel Manager
	2	Full-time Union Official
	3	Combined IR manager, Personnel Director and Union Official
Foodco Australia	4	Factory Human Resources Manager
	2	Corporate Remuneration Manager
	2	Corporate Human Resources Manager
Foodco Singapore	3	General Manager
	2	Administration Manager
	1	Operations Manager
Buildo Australia	3	Group Head Office Human Resources Manager
Buildo Singapore	3	Managing Director
	1	Financial Controller
	1	Remuneration Manager, International Division, Corporate Head Office
Metalco Australia	4	Corporate Remuneration Manager
	1	Corporate Employee Relations Manager
	2	Employee Relations Manager, Processing Company
	1	Plant Employee Relations Manager
Metalco Singapore	4	General Manager
High Tech Australia	5	Company Secretary/Chief Financial Officer
	1	Manufacturing Manager
	2	Pay Officer
High Tech Singapore	2	Chief Executive Officer
	2	Administration Manager

The first point of contact for each organisation was as follows:

1. Oilco Australia–Director of Personnel and Public Affairs
2. Oilco Singapore–Director of Personnel
3. Foodco Australia–Personnel Director
4. Foodco Singapore–General Manager

5. Buildo Australia–HRM Manager, Group Head Office
6. Buildo Singapore–Managing Director
7. Metalco Australia–General Manger, Organisations, Australian Corporate Head Office
8. Metalco Singapore–Managing Director
9. High Tech Australia–Company Secretary and Chief Financial Officer, Head Office
10. High Tech Singapore–Chief Executive Officer

Some of these staff provided the majority of information, particularly in the small firms, as they were directly involved in the compensation system design for the MNE. In the larger firms, the task was delegated to an HRM/IR manager or compensation manager. On occasions, interviews were also granted with payroll officers, administrative managers and line managers. The perspective was therefore a managerial one. With a smaller number of companies for analysis, or with more resources, the union aspect could have been included in cases where the MNE was unionised at a certain plant. For this study, this omission was not considered to be a major deficiency. Another possibly less than ideal feature of the project was the use of a single researcher. This is unavoidable in a thesis project.

The researcher was aware of three other issues relating to a cross-case study approach, namely replication (Yin, 1989), the underpinning by grounded theory (Strauss & Corbin, 1990) and triangulation (Huberman & Miles, 1994). The project followed the principle of replication in two senses. In the principle of 'Safari' or 'replication' research (Harpaz, 1996:38), the researcher repeats the same research in another country. The advantage of this is that one person has control of the whole project. However, possible problems may arise from similar methods in a different cultures or 'intracultural explanations' (p.38). To overcome this, preliminary reading and some early background interviews in Singapore were undertaken to ensure that culture-specific terms were understood and to ensure that the terminology of Singaporean compensation, law, unions and industrial tribunals, in particular, had 'conceptual equivalence' (Harpaz, 1996:43). Familiarity with the meaning and range of employee benefits in Singapore had to be gained. The list of benefits was refined after these discussions. There were no language or translation problems, as English is the business language of Singapore, but the researcher bore in mind that the comfort in using English might have affected answers, and that interviewees might have responded differently if questions had been put to them in Mandarin (Wright, 1996).

The methodology followed the principles of 'grounded theory' (Glaser & Strauss, 1967), which arguably any qualitative study has to pursue (Turner, 1988). In grounded theory, data are collected and then inspected to discover whether any theory, hypotheses or propositions can be developed from the patterns in the data (Tesch, 1990:23). This method of induction accepts that theory generation is closely involved in the research process rather than preceding it (Blaikie, 1993:191), involves a 'constant comparative method' of placing data into preliminary categories 'according to their conceptual contexts', and is constantly looking at data within and between categories and exploring whether several concepts were related to enable hypotheses to be formed. These conceptual categories are 'grounded' in the data (Tesch, 1990:24). Thus the relevance of a conceptual category and its properties gathered from the data in one social context can be analysed in another context to establish any generalities (Blaikie, 1993:191). According to Blaikie (1993:193), the theory may be a 'set of propositions' or a 'running argument'. The grounded theories are likely to be modified as the research proceeds, should fit the data, be understandable to those practising in the area, be capable of generalisation, and have been 'systematically derived from actual data related to that ... phenomenon (Strauss & Corbin, 1990:23). Grounded theory differs from mere description by the greater use of concepts and statements of relationship (p.29).

Another concern of the case study is the validity of the data generated. To reduce misinterpretations of the data, triangulation ('the combination of methodologies in the study of the same phenomenon' [Jick, 1983:135-6]) was used as far as possible. As Huberman and Miles (1994:438) note, the different sources can complement each other, but 'independent measures may never converge fully'. The triangulation 'is less of a tactic than a mode of inquiry' (Huberman & Miles, 1994:438). While no observation is perfectly repeatable (Stake, 1996; Jick, 1983), as mentioned earlier, alternative sources of data on the case companies' compensation were sought, including in-company literature relating to compensation structure and policy, annual reports, material issued to employees, publicly available awards and collective agreements, interviews with the same person spaced over a number of years (so that a check could be made as to whether the original story had changed), and interviewing of second or third persons in the organisations. Thus a 'test of between-method comparability' was attempted (Denzin, 1970:474). Head office officials in several cases could also verify details about the main features of compensation in subsidiaries and the relationship between head office and the affiliates. In validating the data from the subsidiaries, contrasts and comparisons were made; analysis was undertaken to identify key findings for the replication; negative evidence was looked for; and case notes were checked with interviewees following interviews where necessary (Huberman & Miles, 1994:438).

Once the data were collected, themes that cut across the cases were identified. Huberman and Miles (1994:436) call this 'pattern clarification'. Some of these emerged in the way the MNEs perceived the effect of each parameter of the external environment. The researcher followed the advice of Huberman and Miles (1994:437) that cross-case analysis is more easily made with a 'matrix' of data in a shortened form to allow analysis of its main features. Finally, after the writing up of the case studies, a set of propositions was developed in conjunction with the extant literature. Similar findings from IHRM research were compared to enhance the internal validity of the propositions (Eisenhardt, 1989).

Problems in Interviewing Internationally

Most case study data were gained from semi-structured interviews with company executives. The questions were asked in a consistent and systematic order, but interviewees were allowed to digress into environmental, company or compensation issues, and answers were subject to further probing as necessary (Berg, 1989). The questions did not have fixed wording and the discussion allowed for some flexibility (Minichiello et al., 1995). This puts extra pressure on the interviewer not to over-edit, distort or make recording errors (Crouch, 1984). The list of interview headings was revised slightly after the early pilot interviews in Singapore. The essence of the interviews was two-fold: the gaining of data about the organisation and its compensation and benefits for the major categories of staff, and secondly, the perceptions of the interviewees about the influence of elements of the external environment on their pay practices. The conceptualisation of these sub-environments was therefore provided for interviewees, rather than being left up to them to interpret (Downey and Ireland, 1983).

Marshall and Rossman (1989) see the advantages of the interview as a data collection method as being the speed of collection of contextual data and immediate follow-up, its usefulness in discovering complex interconnections and validity checking, and its flexibility for formulating hypotheses. Against this, cooperation is essential; the interviewer may not wish to divulge information; there may be personal biases in the interaction, and the resulting data may be difficult to manipulate. Harpaz (1996:53) also discusses the concept of 'authenticity' in the interview — 'the ability of the interviewer to obtain trustworthy, sincere, and pertinent information from the respondent'. Some of the potential problems that might occur could be due to the interviewer him/herself, perhaps through affiliation to an organisation, image or bias. Minichiello et al. (1995) speak of the difficulty in picking up the difference between exaggeration and distortion (p.94). This might be defended by the argument that a researcher is more interested in the 'truth as the informant sees it to be' (p.94). In Australia, there was an advantage for the researcher is that his employer was a well-known and respected university business school. This also helped in Singapore, as the university is well recognised for having taught its degree courses in the country for more than 10 years. The researcher also dressed formally for interviews because of the status of interviewees and the Singaporean preference for formality (Fontana & Frey, 1994).

The interviewer adopted 'friendly but not over-sociable behaviour' in order to minimise problems of bias (Burgess, 1984:101). At the start of the interview, the interviewees were told of the areas that would be covered in the interview. They were asked the maximum time that could be made available. Verbatim written records were taken at the time of the interview on proforma sheets that had the interview headings on them. While detailed note-taking can restrict non-verbal contact, it does have the advantages of forcing the interviewer to listen more carefully and of allowing partial analysis to occur (Minichiello et al., 1995). The handwritten notes were dictated on to tape as soon as possible on the day of the interview, then later transcribed. This had the advantage over a complete recording of the interview in that those parts of the interview not needing to be quoted verbatim in the thesis had been 'sanitised' with correct grammar (Buchanan, Boddy & McCalman, 1988). Those parts of the conservations that were quoted verbatim were extracted from the original interview notes. Interviewees were contacted again by phone for clarification of any issues remaining unclear.

In both countries, assurances were given that confidentiality would be maintained, that data would not be divulged to the MNE head office or to any other subsidiary, and that no salary quanta would be asked for. In the event, a number of companies did pass on written data about salary policies, structures and levels, and indicated when awards or collective agreements were published and available to the public in both countries. There was some initial reticence from Chinese managers in the smaller companies in Singapore about speaking openly about their pay systems where compensation pratices were very informal. This was overcome with time, by not using a recording device, and when it was accepted (usually quickly) that the researcher was not there from overseas 'to tell them how to do it'. All interviews took place on the interviewees' company premises on a one-to-one basis. The exception was at Oilco Singapore where three interviews of the series were with the Personnel Director, Industrial Relations Manager and the General Secretary of the Oilco Union sitting together to supplement each other's answers. As far as possible, the researcher tried to identify some other biases quoted by Harpaz (1996:53) such as an interviewee answering a question regardless of knowledge, giving ridiculous answers or providing answers which the interviewee thinks the researcher wants to hear. Data could be checked in any case, from other sources such as the MNE head office. Cross-checks were undertaken to compare the consistency of data during the interview and at following interviews (Minichiello et al., 1995).

The Case Study Companies

An initial difficulty for the MNE subsidiary researcher is sorting out who owns what. One is faced with a labyrinth of whole- and part-owners and holding companies, local and overseas head offices and regional offices. It was impossible to find identical affiliates in Australia and Singapore of the same size, technology and product belonging to the same MNE. Doing so would have reduced some of the variables that complicate comparison.

Another assurance given by the researcher in order to gain access was anonymity. While this detracts to some extent from the validity of the research and negates the opportunity for further study of these MNEs by other researchers, the necessity to give the undertaking was weighed against the probability of additional information which might be forthcoming in such a sensitive area. This particularly applied to the smaller subsidiaries in Singapore which are not accustomed to receiving researchers on their premises. The pseudonyms used are (1) Oilco, (2) Foodco, (3) Buildo, (4) Metalco, and (5) High Tech.

A summary of the main characteristics of the MNEs as at the end of 1995 is as follows:

(1) The Oilco Companies

Oilco is one of the world's largest oil companies; its parent corporate headquarters are in Europe. It operates in most of the developed and developing nations; some of the operations are joint ventures, but the majority are Oilco subsidiaries. Oilco Australia, wholly owned by the European corporate MNE holding company (which is, in turn, owned by the European parents), is a holding company for all the Oilco companies operating in Australia. These enterprises explore for, manufacture and market petroleum and petrochemical products, and explore for, produce and market coal. Production facilities in Australia date back to the beginning of the century. Some of the holding company's subsidiaries are not wholly owned by Oilco Australia. From the main Australian registered Oilco wholly owned operations, the three units selected for comparison with Singapore were a refinery, a terminal and the Australian head office.

Like Oilco Australia, Oilco Singapore is a holding company which is also, in turn, owned by a holding company of the European-based corporate parent. The Singaporean group holding company has 100 per cent ownership of the main operating companies. Oil operations in Singapore date back about 100 years, originally as storage facilities only. Over the last 30 years, refineries have been established in Singapore. Oilco has also bought into other Singapore companies and heavily invested in processing plant. Prior to the establishment of the independent nation of Singapore in 1965, some of the Oilco Singapore group of companies which were parties to the collective agreement in 1962 were registered in a European country. Parties to current agreements are incorporated in Singapore. For the purposes of comparison, the refinery, terminal and Singaporean head office were chosen for particular study. However, the collective agreement does cover employees at other Oilco Singapore locations.

(2) The Foodco Companies

Foodco is one of Australia's major food and beverage companies, engaged in the manufacture and distribution of high-quality foods and soft drinks with widely known brand names. Foodco Australia is a wholly owned subsidiary of the corporate MNE Foodco which has a head office in Europe. The parent MNE, whose history dates back more than 160 years, has manufacturing facilities in 23 countries and products selling in over 190 nations. Foodco Australia was incorporated in the 1970s as a holding company to accommodate a series of Australian company mergers and has three operating divisions: confectionery, food and drinks. Its first Australian manufacturing operation dates back to the 1920s. Foodco Australia has six production sites in Australia and six in wholly owned affiliates in New Zealand and Asia. One manufacturing plant in the confectionery division in Australia and the Australian head office, which were both located in the same capital city, were selected for the study. The factory originally started in the 1880s, but was purchased by Foodco Australia in the 1960s.

Foodco Australia wholly owns Foodco Singapore, a separately registered subsidiary in the confectionery division of Foodco Australia. It is a manufacturing facility engaged in processing raw confectionery resources for use in further production in Australia and New Zealand. The entire production is exported and is thus dependent on the Australasian sales teams. The factory was purchased in Singapore in the mid-1980s.

(3) The Buildo Companies

Buildo Australia has its headquarters in Sydney, and the associated building materials manufacturing plant which was selected for analysis is located in Brisbane. It has manufacturing plants and offices in five mainland capital cities and an extensive network of regional sales offices (of about three people each) throughout Australia. Its origins date back to the 1920s and, over the years, it has had several owners. It was purchased by one of Australia's biggest MNEs in the late 1980s. This MNE has its corporate head office in Melbourne and Buildo Australia is part of its Building and Industrial Products division. However, the structure is complicated, in that Buildo Australia's headquarters is also responsible for two other companies, also owned by the MNE, which form a Special Building Materials Products Group of companies.

Buildo Singapore, by comparison, reports to the international division of the large corporate Australian MNE through a regional manager for South-East Asia, a relationship which has operated since February,1992. Prior to this, it reported to one of the MNE's Australian domestic divisions. Buildo Singapore has an independent board and is 50 per cent owned by the Australian MNE and 50 per cent by a European group. This is an unusual arrangement for the Australian MNE, which usually prefers to have 100 per cent ownership of subsidiaries. The Buildo Singapore board has four directors from each owner. Buildo Singapore and Buildo Australia produce very similar steel reinforcing products.

(4) The Metalco Companies

Metalco Australia is a remotely situated smelting plant of a business unit in the metals industry, the plant being one of 14 locations around Australasia belonging to a metals processing company. It also has overseas interests. Two-thirds of the shares in this company are owned by a big Australian corporate MNE (with 18,000 employees) which recently merged with a European MNE, the latter previously holding a 49 per cent stake in the Australian company. For the purposes of the case study, the situation prior to amalgamation is described. The processing company has its own board, but the Australian MNE has three directors sitting on its board to provide the managerial link. The metals processing company head office and the Australian MNE have head offices in Melbourne. The metal processing company is divided into business units with a high degree of delegated authority and the affiliate selected is a part of one these business units. Figure 4.1 shows the relationships of the subsidiary analysed. Metalco Australia's association with the MNE dates back to the early 1960s and the plant is managed by a General Manger for operations. The plant gets its raw materials from another part of the MNE, processes them and sells them on the world market.

Metalco Singapore was the company selected for study for this project, but it was sold to a local Singaporean company by the corporate Metalco MNE in April 1993. The case study thus reflects the position as at that date. Metalco Singapore had a less

Figure 4.1

Organisational Links for Metalco Australia

Main Australian owned MNE with own board.
(European MNE had 49 per cent stake in this and three members on the Australian board, but merged in 1996)

|

Metals Processing and Manufacturing Company
67 per cent owned by the Australian MNE

|

Company divided into four operating business units

|

One business unit with 3 processing operations

|

Selected processing plant for study (Metalco Australia)

complicated relationship to the Australian MNE than does Metalco Australia. It was formed in Singapore as a result of a merger of two engineering and manufacturing companies. It was a wholly owned subsidiary of an Asian-based holding company (with its head office in Singapore) which operated as a separate business unit of the Australian MNE, coordinating trading in metals and raw materials and manufacturing throughout Asia. This company was wholly owned by the Australian MNE. Metalco Singapore was managed by a General Manager, providing specialist manufactured products. It had two 'sister' companies in other parts of the world which were not owned by the Australian MNE.

(5) The High Tech Companies

High Tech Australia is a medium-sized independent designer, manufacturer and supplier of data communications equipment and services. The company was founded by a sole owner in Australia in the 1970s and subsequently set up bases in Hong Kong and New Zealand. A head office and factory were set up in an Australian capital city in the 1980s and the Singaporean subsidiary was established in 1984. In the mid 1980s, the company went public, built a second factory alongside the head office, and also commenced operations in Malaysia. Through buying into other companies, High Tech moved into China and Thailand and representatives are situated in Indonesia, the Phillipines, Taiwan and Papua New Guinea. Its Asian Regional headquarters were transferred from Hong Kong to Singapore in 1994. For the purpose of the research, the compensation of the clerical, sales, technical and managerial staff in Australia were used as the basis of comparison with the compensation systems operating in the Singaporean affiliate — High Tech Singapore. To be precise, the comparison is of the compensation systems of the Australian parent MNE's head office and operations in Australia (i.e. a company) with its Singaporean affiliate, rather than of two 'subsidiaries' as defined in Chapter 1. Thus composite tables and the title of the thesis refer to 'subsidiaries' and 'companies'. The reason for this exception was that the manufacturing plant and head office were on the same site with services such as payroll and finance interlinked. Other functions such as R & D were also being centralised on to the same site. While the manufacturing function could have been termed a 'subsidiary', it was not appropriate because it was not a discrete entity. Despite this exception in the thesis, the findings from the study of the Australian and Singaporean operations did show the effects of the respective external environments on their pay systems.

High Tech Singapore is a subsidiary of the corporate MNE High Tech Australia which opened, as mentioned above, in the mid-1980s. High Tech Singapore is 100 per cent owned by High Tech Asia, a publicly listed company now based in Singapore (previously in Hong Kong), which in turn is 56.25 per cent owned by the corporate High Tech MNE. High Tech Singapore has one work site in Singapore specialising in sales and service only. Manufacturing of the systems is done in Australia or Taiwan.

Presentation of the Case Studies

The comparative case studies for each of the MNEs are presented in a standard format. As there was a cut–off date for the interviews, the case have been written up in the past tense. Each subsidiary is described separately. The case first gives background data on the organisation, technology, objectives, HRM/IR organisation and unionisation of the affiliate. An overview of all compensation systems then leads to a description of the system for each major category of employee. This usually starts with the industrial/blue collar (unionised) employees, followed by clerical/administrative, sales and/or technical, and finally, managerial staff. A list of employee benefits offered by the company is shown in a standardised format. A consideration of the role of the MNE head office in relation to affiliate compensation leads to a general discussion of the effect of the external environment on reward systems. Once both subsidiaries have been described, for ease of analysis, the similarities and differences of the basis for pay, design issues and administrative framework of the two compensation systems are displayed using the Summary Profile of Algorithmic and Experiential Compensation Patterns developed by Gomez-Mejia and Balkin (1992:61). The fitting of all pay systems into single concepts in the Profile was not always easy. For example, for the criteria for pay increases, the Profile lists either tenure or performance. In some affiliates, the criteria for increases were both length of service and performance.

The discussion of the external environment in relation to the subsidiary compensation follows the sequence of the influence of legislation, the economy, the industrial relations systems including the National Wage Cases and recommendations in both countries, national culture, other variables, and the inter-linkages with internal characteristics. The testing of the Hodgetts and Luthans (1993b:42–48) propositions on the relationship between national culture and compensation follows, and a conclusion based on the cross-case analysis concludes each case chapter.

Limitations of the Research

The practice of field research has been defined as 'the art of the possible' (Bresnen, 1988:55). The researcher is therefore conscious of the limitations of the approach used in this thesis. The advantages and disadvantages of using the case study approach have been examined (Gummesson, 1991). The problems associated with using comparative cases as a methodology, the difficulty in defining culture in a study, the unique issues involved in international studies, and the difficulty of obtaining identical cases for analysis in Australia and Singapore have been referred to. Peterson (1993:16–20) succinctly lists his criticisms of comparative management studies over the years. They include the lack of a theoretical base or conceptual model, ethnocentricism, the heavy reliance on 'convenience samples', an over-emphasis on cultural variance, an assumption that important factors in one nation have equal value in another, and a bias towards large companies and to studying one category of employee only.

This study has tried to avoid the worst of these weaknesses by the careful selection of comparative cases, by acknowledging that culture *within* Singapore and Australia is not without variation, by accepting that there is no perfect compensation system, by studying the case companies at two different time periods and incorporating their historical data, by using large and small MNEs, by articulating some cultural explanations of differences in compensation design and by describing compensation at all levels in the subsidiaries and companies.

Finally, it is acknowledged that because of the scale and nature of the research, it was confined to two countries. At the beginning of the project, data were being collected for a third country, on a joint venture and a major locally owned Singaporean company to permit an intra-country comparison (Cavusgil & Das, 1997), but the scale was becoming too large for the purpose intended, and the study was therefore restricted to two countries in the Asia–Pacific region.

Conclusion

This chapter has argued that, in conjunction with the existing literature, the use of comparative case studies is an appropriate way to develop a framework to explain the impact of the external environment on MNE subsidiary compensation design, and to generate propositions for further study. The research proceeds by describing the MNE compensation systems in Australian and Singaporean subsidiaries and companies, identifying similarities and differences, and analysing the impact of the external environment and the MNE head office. Details of the research design — including the study questions, units of analysis and the principles underlying the methodology — were outlined. To place the case study reports into context, we next consider the macro environments of Singapore and Australia.

CHAPTER FIVE

SINGAPOREAN COMPENSATION IN ITS LOCAL CONTEXT

Physical Geography and Brief History

The Republic of Singapore is a small island country of 3.04 million predominantly Chinese people. It has 58 islets within its territorial waters which are located about 140 kilometres north of the equator (Department of Statistics, 1997:1). The country is separated from the Malaysian Peninsular by the Straits of Johor and from the Indonesian Islands to the south by the Straits of Singapore. The main island of Singapore is 42 kilometres from west to east, and 23 kilometres from north to south. Much of its total land area (which includes the islets) of 639.1 square kilometres is within 15 metres of sea level, and the highest point is 165 metres above sea level. A causeway joins Singapore to the Peninsular Malaysia mainland. Apart from its natural harbour and strategic location, the country has few natural resources (Leggett, 1993). It is subject to mean daily temperatures of 31°C degrees and 74 per cent humidity.

Singapore's history prior to the fourteenth century is rather sketchy (Tan Ding Eing, 1975). There are some records of a Chinese presence on the island in 1330 (Tan, 1992). However, the most notable change occurred around the beginning of the nineteenth century when Britain sought a port which it could operate in the Straits area to preserve trade with China, and refit and protect its merchant fleet (Tan, 1992). In 1818, Sir Stamford Raffles, an official of the English East India Company, was given permission by the British Governor–General of India to make a treaty with local chiefs to establish factories and administer the Singaporean port in return for an annual fee and half of the duties (Tan Ding Eing, 1975). Estimates of the population at this time vary from 150 (Marriott, 1921) to 1,000 (Turnbull, 1989), rising to 10,683 by 1824 (Foo Siang Luen & Rocha, 1995:30).

In 1826, under the Straits Settlement, Singapore, Malacca and Penang came under the control of British India and eventually under the British Government's Colonial Office in 1867 (Tan, 1992). Singapore benefited from the advent of steam ships and the opening of the Suez Canal. With the increasing prosperity up to 1913, Singapore's population grew to over 80,000 by 1860 as 'emigrants from China poured in to become traders and workers' (Cady, 1980:391). The British established a naval and air base in Singapore in the 1930s. The Japanese overran the British and Australians protecting the island in February 1942 and remained its rulers for three and a half years (Tan, 1992). After the war, the British military retook control; the Straits Settlement was dissolved and Singapore was made a separate British crown colony. From 1948 to 1959, there was a state of emergency in Singapore as the Communist Party of Malaya tried to take over Malaya and Singapore by force (Tan, 1992). In the 1950s, after local elections, the resignation of the chief minister and negotiations in London, self-government was obtained in 1959. The subsequent general election was won by the People's Action Party (PAP), and Lee Kuan Yew became the State of Singapore's first Prime Minister in June, 1959. The PAP and communists cooperated uneasily to overcome British rule and eventually split, the pro-communists forming an alternative party (Tan ,1992).

In 1961, the Malayan Prime Minister proposed an economic and political federation of Malaya, Singapore, Sarawak, North Borneo and Brunei. In Singapore, there was support for the federation and Malaysia was formed in 1963. However, the merger collapsed in August 1965, mainly because of racial rivalry for control between the Chinese and the Malays (Josey, 1974). Singapore then became an independent republic in December 1965. Without natural resources except for its people's skills, a program of foreign-investment driven industrialisation, economic restructuring, technology expansion, computer education and urban development was undertaken (Tan, 1992). The British withdrew their armed forces from Singapore in 1971 causing temporary economic turmoil as the naval base employed 25,000 local people (Turnbull, 1989). The country has remained politically stable, with the PAP as the dominant party in Parliament. The last formal Singaporean links with Malaysia were severed in 1973 when the currency, stock exchange, and rubber market were separated. Lee Kuan Yew continued as Prime Minister until November 1990 and was succeeded by Goh Chok Tong. Lee is still very influential in Singapore's Government and cabinet and is referred to as the 'Senior Minister'. His son is one of two Deputy Prime Ministers.

Demography

Estimates of Singapore's population for selected years are as follows.

Table 5.1
Singapore Population for Selected Years

Year	Population
1824	10,683
1860	81,734
1881	137,722
1901	226,842
1921	418,358
1947	938,144
1957	1,445,929
1967	1,955,600
1982	2,440,000
1990	2,705,100
1995	2,986,500

Source: Saw Swee-Hock (1969) 'Population Trends in Singapore, 1819–1967' Journal of Southeast Asian History, 10(1), 36-49; Ministry of Information and the Arts (1996); Reports on Census of Population; Balachander, S.B.(ed.)(1996) Singapore 1996, Singapore, Ministry of Information and the Arts, p.35.

The rapid growth of population shown in Table 5.1 is mainly due to immigration. The early immigrants were Chinese and Indian traders and Indonesian immigrants from the neighbouring East Indies islands. Growth after the Second World War was also mainly due to immigration and the demand for labour for public works, the decline in mortality rates, high birth rates, and movement from the Malaysian mainland (Saw Swee-Hock, 1969).

Singapore has never had a native population as such and has always been composed of Chinese, Malays and Indians. Various attempts to influence the number and intellectual composition of the Singaporean population have attracted 'world-wide attention' (Saw Swee-Hock, 1985:92). The Government runs three matchmaking agencies for young singles differentiated according to educational qualifications, and male graduates are encouraged to marry their female equivalents rather than their educational inferior (Straits Times, 24 September 1994). In 1995, the Singaporean population consisted of 77.4 per cent Chinese, 14.2 per cent Malays and 7.2 per cent

Indians (Balachander, 1996:35). The national language of Singapore is Malay, with English as the language of business, although the official languages are Malay, Chinese, Tamil and English. Mandarin is increasingly used by Chinese residents instead of the local Chinese dialects, and 45 per cent of Singaporeans are literate in at least two languages (Luen & Rocha, 1995:32).

The Economy

The Singaporean economy has been described as 'one of the most spectacular economic developments in the world' (Chia Siow Yue, 1986). Singapore has combined high growth, low inflation, rising living standards, modernisation of industry, a focus on exported manufacturing goods, full employment, and a major financial services sector alongside its thriving entrepot trade. In 1996, it was ranked first on a global competitiveness index by the Swiss-based World Economic Forum, and assessed as the country with the best prospects for growth over the next five to ten years (Wicks, 1997).

The economic problems facing Singapore in the 1947–57 period were mainly due the high population growth (Chia Siow Yue, 1986). Unemployment in 1959 was estimated at 13.5 per cent (Krause, 1987). Industrial development consisted of mainly small household or backyard repair or service units 'with little capital equipment and obtaining low productivity' (Lee Soo Ann, 1973:78). On the separation from Malaysia in 1965 (with unemployment around 10 per cent), Singapore changed its strategy to greater emphasis on labour-intensive export-orientated industrialisation and more foreign investment. During the period 1959–69, the Singaporean economy grew at a compound annual growth rate of 9.4 per cent, mainly as a result of the trade and manufacturing sectors (Chia Siow Yue, 1986). The foreign investment in manufacturing (mainly from the United States, Britain and the Netherlands) trebled within 12 months of the passing of the 1968 labour laws (Buchanan, 1972).

The pressure on wages in the 1970s from the continuing economic growth, low unemployment rates, and the declining growth rate of the labour force, led to a policy of restructuring of the economy and a high wage policy in 1979 (Rodan, 1992). The same strategy continued into the 1980s with the emphasis on increasing the level of wages to encourage labour saving and productivity, an expansion of tertiary education and training, and tax incentives to promote research, mechanisation and computerisation (Lim & Pang Eng Fong, 1986). Wage levels were increased by about 20 per cent in 1979 and 1980, and 17 per cent in 1981 (Business Week, May 25, 1981:49) to encourage more value-added and sophisticated production (Rodan, 1987). This policy 'partially backfired' in 1985 when high wages were blamed for the economic slump (Asia and Pacific Review, 1993:224). GDP real growth rates in the years 1980–84 averaged 8.5 per cent, largely generated by international services (Ministry of Trade and Industry, 1986), but fell to 'a paltry 1.8 per cent in 1986' (Asia and Pacific Review, 1993:224) after negative growth in 1985. The main economic indicators for selected years the period 1980–95 are shown in Table 5.2 below.

Table 5.2
Summary of Economic Indicators, Singapore, Selected Years 1980–95

Indicator	1980	1990	1995
GDP (S$M) (at current market prices)	25,090.7	67,878.9	121,080.8
Annual % change over previous year (at 1990 prices)	7.4	9.0	8.8
Inflation (% change over previous year)	2.7	3.4	1.7
Unemployment % (aged 15+)	3.5	1.8	2.0
Per capita GNP (S$) (at current market prices)	9,940.6	22,645.0	35,005.4
Overall Balance of Payments (S$M)	1,433.8	9,892.5	12,173.9
Current Account Balance (S$M)	-3,345.6	5,612.9	20,448.3

Source: Ministry of Trade and Industry (1997) Economic Survey of Singapore, 1996, Singapore.

Attributing reasons for Singapore's economic success is not easy. The nation has the special characteristic of being small, with the smallness making it easier to govern (Lim Chong Yah, 1988). It has a very open economy with an 'exceptionally high trade/GNP ratio' and an 'export market much larger than its domestic market' (p.3), a large service sector, and a dependence on foreign investment, labour and technology. Its dependence on foreigners increases its vulnerability to external events as can be seen from its GDP growth rate of 1.5 per cent for 1998 compared with a realised 7.8 per cent in 1997 (Foo Siang Luen & Kwih Toi Chi, 1999).

MNEs in Singapore

Companies with at least 50 per cent of their shares owned by shareholders who have residential or registered addresses outside Singapore are designated 'foreign-controlled companies' (Department of Statistics, 1995:68). From 1983–93, the number of MNEs in Singapore increased from 6,156 to 11,243 of which 1,323 were in manufacturing, 5,043 in commerce and 3,400 in financial and business services (p.70). The policy to attract MNEs in large numbers dates back to the 1965 separation from Malaysia. The economic strategy was very successful in attracting medium-sized and large organisations (Chong Li Choy, 1986). Nowadays, Singapore's top 1000 companies tend to be MNEs (Straits Times, 21 December, 1996). MNEs were attracted by the low wages and tax incentives. Mirza (1986) states that MNEs with 'pioneer status' employed over 70 per cent of labour working for MNEs in 1981. To be a 'pioneer', the business had to make large capital expenditures and use knowledge-based technologies (p.88).

After the world oil crisis in 1973–74, Singapore became more selective in the type of MNEs it wanted, and in 1979, placed more emphasis on high value-added and technology-intensive industry (Chong Li Choy, 1986). This resulted in more chemical processing, sophisticated electronics, and biotechnology companies in the early 1980s (p.3). According to a 1985 survey, reasons given by MNEs for establishing in Singapore were, in order of importance, economic stability, geographic location, tax incentives, lower costs, good communications systems, high quality labour and no foreign exchange controls (Chong Li Choy, 1986). However, by the 1990s, MNEs with an eye to the future were concerned by labour shortages (particularly of operators), rising wages, the security of the long term water supply[1] from Malaysia, and lease and land costs (Natarajan & Tan Juay Miang, 1992).

[1] Malaysia has an agreement with Singapore to supply it with water until 2061, but relationships between the two countries have experienced strain from time to time.

The System of Government

Singapore is a republic with a written constitution and a parliamentary system of government. The state is headed by a President who is elected by Singaporean citizens although he is normally the only candidate and is nominated by the government. The cabinet, headed by the Prime Minister, is in charge of the administration and is collectively responsible to Parliament. There are 20 registered political parties in Singapore, but of the 83 seats in Parliament, the ruling People's Action Party (PAP) won 81 in the January 1997 election. In opposition, there is one Singapore People's Party and one Workers' Party MP in the current Parliament. The Singapore Democratic Party, which won three seats in 1991, did not win any in 1997 (Singapore International Foundation, 1997: 5).

The PAP was formed in 1954 'as a nationalist movement' with the Cambridge educated Lee Kuan Yew as Secretary–General (Josey, 1971:8). Lee won subsequent elections after the 1965 separation from Malaysia, in 1968, 1972, 1976, 1980, 1984, and 1988, with his successor (Goh Chok Tong) winning in 1991 and 1997. Singapore has no government-funded social security (medical and unemployment) scheme (except for the Central Provident Fund and Medisave compulsory savings), and very strict laws on internal security, drugs, litter, chewing gum, public toilet flushing, and the use of private cars. Criminal sanctions include capital and corporal punishment. There are also restrictions on the local media, and friction with overseas media, churches and academics from time to time. Nearly 170 English-language publications are banned in Singapore (Straits Times, 28 February, 1998). While the style of the government has been criticised by some Singaporeans for its intolerance of opposition, some academics believe 'the people are not in a hurry to change the government' (Chua Beng Huat, 1993:106). In 1993, the first direct election of a Singaporean President occurred, with powers to veto the budget, decide on the use of foreign reserves and appoint public servants (Age, 4 August, 1993).

The role of the government in Singapore's industrialisation and competitiveness is well documented (see Rodan, 1989; Lee Soo Ann, 1973), although not always in positive terms (see, for example, Loh, 1998). Agencies such as the Economic

Development Board, the Singaporean Productivity and Standards Board, Housing Development Board, Jurong Town Corporation, and Temasek, a government holding company, have all played a major role. In the labour area, the government has imposed such levies on employers as the former payroll tax, Skills Development Levy, foreign workers' levy, and Central Provident Fund contributions. The government has greatly influenced the design of Singapore's compensation system by means of employment and industrial relations legislation, control of the trade union movement and involvement in National Wage Council decisions.

The Labour Force

According to the 1996 Labour Force Survey (Research and Statistics Department, 1997:1), Singapore had labour force of 1.8 million, of which 58.5 per cent were male. About two thirds of the workers were in the 30–59 age category, 29.1 per cent in the 15–29 age bracket and 3.6 per cent in the over-60s. The male participation rate (aged 15 and over) has been stable at around 79 per cent since 1986, whereas the female rate was 45.6 per cent in 1986, but is now 51.5 per cent. Of the workforce of 1.8 million, 85 per cent are employees and 15 per cent self-employed. Of the latter 15 per cent, 5.6 per cent are employers. The 'up-skilling' of the workforce is shown in the doubling in the number of graduates since 1986 to 11.6 per cent of the workforce. Post-secondary /diploma qualification holders have also increased from 11.6 per cent in 1986 to 18.9 per cent in 1996. At the same time, the proportion of those employees without a secondary education has declined to 38.9 per cent compared with 53.1 per cent in 1986.

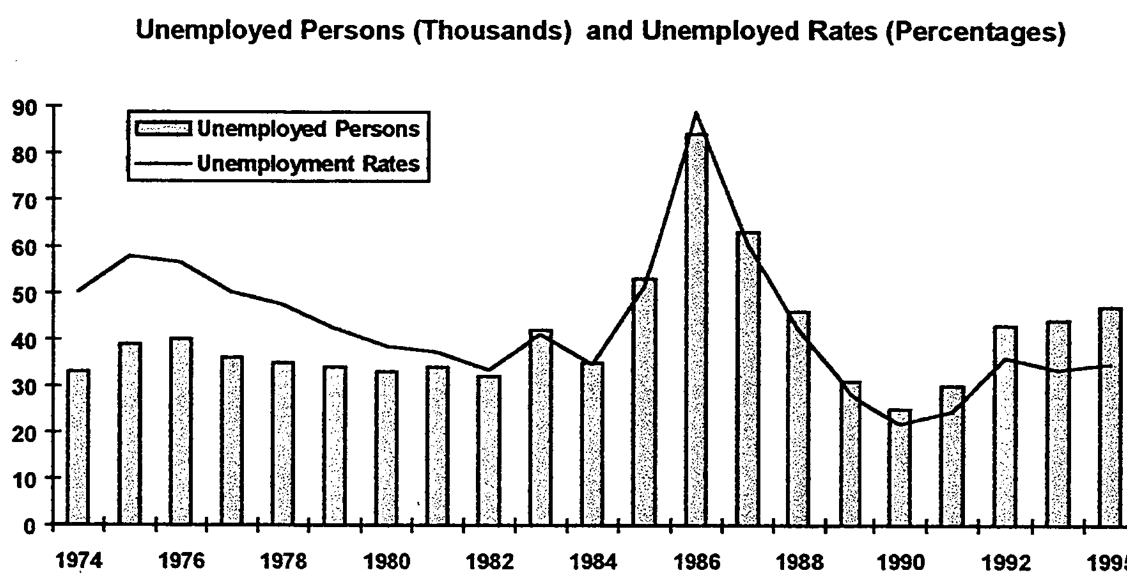
The median age of the workforce in 1996 rose to 36.5 years; 23 per cent of them were in manufacturing and 23 per cent in commerce. Financial and Business Services accounted for 14 per cent (a 5 per cent increase since 1986) and Community and Personal Services another 21 per cent (stable). The growth in skill also changed the pattern of employment. Professionals and managers accounted for 19.7 per cent of the labour force compared with 11.9 per cent in 1986. Technicians and associated professionals similarly were in greater proportions (now 17.6 per cent compared with

10.2 per cent in 1986). By contrast, the percentage of production and related workers decreased to 31 per cent in 1996 from 42 per cent in 1986.

The challenge for Singapore is to provide the labour supply to generate continuing economic growth. Chew Soon Beng and Chew (1992) believe that the high levels of male participation demonstrate that 'this pool is almost completely exhausted' (p.5). The 1995 overall female participation rate of 50 per cent peaked in the 20–29 age group at around 80 per cent, but dropped to below 50 per cent over the age of 45 years. This may suggest that there is some potential in that area. With the policy to encourage more educated females to marry and either join or remain in the workforce, Wan, Wyatt, Tsai-pen Tseng and Ho Beng Chia (1989) note that the government has offered civil servants subsidised child-care, child-rearing leave, up to four years' unpaid leave without loss of job or seniority, part-time work and paid leave to cater for sick children. These measures are not so prevalent in private industry because of the cost. Another source of labour is the older generation and in 1993, legislation increased the retirement age to 60. This may be raised in stages to 67 by 2003 (Ow Kheng Tot & Ma Wei Cheng, 1996) but was set at 62 years on 1 January 1999 (NTUC News 1 August 1997).

More part-time work has been seen as another solution to the shortage of labour. Part-timers (defined as those whose regular working hours are less than 30 per week) made up only 3.4 per cent of the workforce in Singapore in 1996, two thirds of whom were female (Research and Statistics Department, 1997). These employees have received recent attention from Singaporean academics (see Wan et al., 1989; Chew Soon Beng & Chew, 1992; Lee and Tan Hwee Hoon, 1993). Another strategy for overcoming the labour shortage in Singapore has been the use of strictly controlled foreign workers. The control is exercised by the issuing of work permits, percentage limits of foreigners allowed to be employed in an organisation and, since 1984, the imposition of a levy on the employer for each foreign worker. The policy dates back to the mid-1960s and there are estimates of about 300,000 foreign or 'guest' workers including 80,000 domestic workers or maids in the country at present (Labour News, January, 1995). The levies are regularly changed according to the labour market. In 1995, the monthly levy was raised to S$330 per month for foreign workers in the manufacturing, service and domestic sectors, S$200 per month for skilled workers and S$400 per month for unskilled construction workers[2]. The levy prevents the 'guest worker' from being a cheap source of labour at the expense of local Singaporeans. The government policy on foreign labour is to complement the local numbers, but to be a buffer in the event of an economic down-turn as in 1974–75 and 1985–86. During the 1985 recession, 60,000 were repatriated (Lee Tsao Yuan, 1987). Unemployment rates for the period 1974–95 are shown in the Figure 5.1.

Figure 5.1
Unemployed Persons and Unemployment Rates, Singapore, 1974–95



Source: Labour News, April, 1993; Department of Statistics (1995) Yearbook of Statistics, Singapore 1995.

The impact of low unemployment and wages growth on national cost competitiveness has been a key focus in Singapore's economic strategy (Rodan, 1989), so there has been great government involvement and interest in wage movements. The Employment Act of 1968 altered the pay and conditions of employees, specified working hours, and reduced public holidays and annual leave (Rodan, 1989). The rapid wage growth of the late 1960s and early 1970s led to fears of a wages blow-out, and so the government set up a tripartite National Wages Council in 1972 to advise on orderly wage development, recommend annual increases and to 'assist in the development of incentive schemes to improve national productivity' (Lee Tsao Yuan, 1987:178). The problem for the booming Southeast Asian economies was to offset the rising wage with increasing productivity (Chowdhury & Islam, 1993).

[2] As from 1 April 1998, monthly levies for skilled foreign workers were cut by half to S$100, and unskilled construction employee charges increased to S$470. The revision of levies was intended to make the employment of skilled workers more attractive, and employment of unskilled people more unattractive (Straits Times, 8 November, 1997).

The monthly earnings, inflation rates and productivity growth of Singapore for selected years 1987–95 are shown below in Table 5.3.

Table 5.3
Wage Increases, Inflation and Productivity 1987–95, Singapore

Indicator	1987 %	1988 %	1989 %	1990 %	1995 %
Increases in monthly earnings	3.2	8.2	9.3	9.3	6.4
Inflation Rate	0.5	1.5	2.4	3.4	1.7
Productivity Growth	5.1	5.0	5.1	4.1	3.6

Source: Research and Statistics Department (1991) Report on Wages in Singapore 1990, Part 2; Research and Statistics Department (1992) Report on Wages in Singapore 1991, Part 2; Ministry of Trade and Industry (1997), Economic Survey of Singapore, 1996, Tables A2.9 and A 2.7

With the tight labour market, the increases in monthly earnings regularly exceed productivity rises as Table 5.3 indicates. In June 1996, the median gross monthly income of an employed person was S$1,625 (Research and Statistics Department, 1997:9). Males received S$1,800 per month compared with females at S$1,350. Educational qualifications played a large part in earnings with degree holders receiving a median of S$4,000 per month. A 1992 Singapore National Employers' Federation survey of salaries quotes monthly averages of $S11,309 for chief executives, $S5,846 for a marketing manager and $S997 for a production operator (Straits Times, 10 January 1992). Management salaries are considered locally to be the third highest in the world (Straits Times, 17 June 1995). However, average salaries conceal the escalation in property and motor vehicle prices[3] which has led to declining purchasing power for assets and the strain on social cohesion (Lee Tsao Yuan, 1996). Only 14 per cent of the population live in private property with the bulk of the population living in government-provided accommodation (p.33).

[3] The Singapore Government has strict controls on the number of cars allowed to be run on the island. The position for 1995–96 is described and based mainly on data from the Singapore International Chamber of Commerce (SICC, 1995). Each potential car user had to obtain a Certificate of Entitlement (COE) for which quotas and tenders were organised monthly. The COE lasted for ten years only and could cost more than S$50,000 depending on the vehicle type. However, the exact amount depended on the quota available and the bids put in. Where quotas were not totally used, speculative bids might be successful (as was the case in December 1997 when a COE for a Mercedes-Benz E2000 was obtained for S$50. The previous month, it cost S$64,100 [Straits Times, 13 December, 1997]). Any imported vehicle had 41 per cent import duty placed on it. A Registration fee was then payable of S$1000 for private use and S$5000 for company use. A new or second hand vehicle registered for the first time in Singapore had an Additional Registration Fee of 150 per cent of its Open Market Value. Annual Road Tax was calculated on engine capacity and in 1995 would have been S$1440 per annum for a 1600cc vehicle, or S$5250 for a 3000cc car. Motor cars over 10 years old incurred a surcharge on Road Tax payable on a sliding scale of up to 50 per cent for a vehicle of over 14 years of age. A modest imported Daihatsu Charade 1.5 litre saloon would have cost S$62,000 in 1995 excluding COE. The Government announced in March 1998 that from 1 September, 1998, there would be a shift from charging for car ownership to paying for road usage (Straits Times, 7 March, 1998).

The nominal working hours for Singaporeans have stayed remarkably constant over the last 50 years or so. The 1968 (and amended) Employment Act laid down maximum normal and overtime hours for those earning up to a specified monthly salary. The 1995 salary ceiling for those covered by the Employment Act was $S1500 per month. Under the Act, the working hours in a company must not exceed an average of 44 per week over a two-week period. Overtime is to be paid at time and a half, and is limited to a maximum of 72 hours per month, unless Ministry of Labour (now Manpower) permission is granted. Data from the Department of Statistics (1995c) show that the number of hours worked per week has increased slightly in the period 1985–95. The average for all industries was 44.6 in 1985, and 47.1 in 1995 (p.48). Within the overall figure there is some industrial variation, the highest number of hours being worked in manufacturing, construction and transport, storage and communications.

In terms of skills of the workforce, as early as 1952, the government was indicating that if Singapore was to attract industry, it would have to develop skilled trades people (Blythe, 1952). There is evidence of technical training by large employers in the 1950s, but a major government initiative was the setting up of a Skills Development Fund (SDF), which placed a levy of two per cent on the salaries of all workers earning less than S$750 per month (Chew Soon Beng & Chew, 1992). The rate of the levy has been adjusted regularly and the salary ceiling was raised to cover all workers earning less than S$1,000 per month in 1995. Companies can claim back between 30 and 90 per cent of the training costs for structured training programs from the SDF pool.

The National Wages Council in its 1996–97 recommendations which noted that while the estimated percentage of national payrolls spent on training was 3.6 per cent in 1995, some larger companies with more than 500 employees were spending more than 7 per cent, compared with less than 2 per cent in small and medium size enterprises (Labour News, October, 1996). In all, the Singaporean Government spent S$3.6 billion on education in 1995 (Department of Statistics, 1995: 245).

The National Culture of Singapore

The complexity of analysing national cultures has already been discussed in Chapter 4, together with the weaknesses of using several dimensions to approximate a culture (Hofstede, 1991). Nevertheless, Hofstede's (1991) work does permit a comparison between Singapore and Australia on five dimensions. Table 5.4 below shows the value of the indices and ranks of Australia and Singapore out of 53 countries on the dimensions of Power Distance, Individualism, Masculinity, and Uncertainty Avoidance, and out of 20 nations for Confucian Dynamism. The dimension 'Confucian Dynamism' was introduced by Hofstede and Bond (1988) to show the relative preferences of nations of values associated with Confucian Dynamism. These included the relative importance of 'persistence (perseverance), ordering relationships by status and observing this order, thrift and having a sense of shame', and the relative unimportance of 'personal steadiness and stability, protecting your face, respect for tradition, and reciprocation of greetings, favors and gifts' (Hofstede & Bond, 1988:17).

Table 5.4
Scores on Five Hofstede Dimensions for Australia and Singapore

Value of the Five Hofstede Indices for Australia and Singapore		
Indices/Rank*	**Australia**	**Singapore**
Power Distance		
Index	36	74
Rank	41	13
Individualism		
Index	90	20
Rank	2	39–41
Masculinity		
Index	61	48
Rank	16	28
Uncertainty Avoidance		
Index	51	8
Rank	37	53
Confucian Dynamism		
Index	31	48
Rank	11-12/20	8/20

Source: Hofstede, G and Bond, M.H. (1988) 'The Confucius Connection: From Cultural Roots to Economic Growth', Organizational Dynamics, 16(4), 5–21, and Hofstede, G. (1991) Cultures and Organisations, London, Harper Collins

Notes: *Rank numbers: 1=highest; 53=lowest. Confucian Dynamism is for 20 nations only and 1 = highest; 20=lowest

The number of Singaporeans surveyed by Hofstede (1980/1988) in his 1971–73 study was 58, and the results were interpreted as showing that Singapore had a high Power Distance ranking, offset by a weak Uncertainty Avoidance ranking. A low score was recorded on Individualism ('loosely knit social framework') and an average score on Masculinity ('preference for achievement, heroism, assertiveness, and material success') (p.337). The outcomes have been interpreted in different ways. For example, Hodgetts and Luthans (1993b) tabulate the Singaporean Masculinity score as 'high' (p.45), whereas Punnett and Ricks (1997:152) list it as 'moderately low'. Based on Hofstede's (1991) clusters of nations on dimensional matrices, in this study, Singapore is interpreted as having 'high' Power Distance, 'low' Individualism', 'moderately low' Masculinity, and 'weak' Uncertainty Avoidance. Singapore was placed 8th out of 20 nations on the Confucian Dynamism index which was construed by Hofstede and Bond (1988:18) as 'quintessential Confucianism' in action. As the Confucian Dynamism scores were high for the other four 'Dragons', Hofstede (1988) argued that one could perhaps attribute some of their high economic growth to their national culture.

Hofstede's dimensions scores can be compared with the more recent cultural data of Trompenaars (1994) on Singapore. Hoecklin (1995) adapted Trompenaars's findings to devise a set of continua for each relationship dimension showing the position of 20 countries on the dimensions. Singapore was placed at the mid-point between Universalism and Particularism, meaning that it did not focus more on relationships than rules (Hoecklin, 1995). It was placed at the extreme Collectivism end of the continuum for Individualism and Collectivism, meaning that 'people ideally achieve in groups which assume joint responsibility' (Trompenaars, 1994: 67). Singaporeans were more Neutral than Affective, interpreted as not revealing what they thinking or feeling (p.77). On the Specific and Diffuse scales, Singaporeans tended more towards Diffuseness appearing more 'indirect … evasive, tactful, ambiguous [and] even opaque' (Trompenaars, 1994:98). Finally, Hoecklin (1995) summarised the Trompenaars data as suggesting that Singaporeans supported Ascription slightly more than Achievement as the basis for according status and power in society. This results in more use of titles, respect for seniors in a hierarchy and senior management comprising of middle-aged males qualified by their backgrounds (Trompenaars, 1994). According to Trompenaars, this would make MBO and pay-for-performance less effective than direct rewards from a manager (p.116). Trompenaars's (1994) findings have links with those of Hofstede in that, despite different definitions, Singapore again appears more collectivist than individualistic, and the ordering of relationships by status and observing this order (Hoftsede & Bond's [1988] Confucian Dynamism) conforms with the tendency of Singaporeans towards Ascription in Trompenaars's results.

Redding (1990) states that the cultural determinants of individual Chinese values stem from the fundamental beliefs and values of Confucianism, Taoism and Buddhism. These, in turn, influence the social structures of the family, networks and ethnicity, and relationship rules such as filial piety, collectivism/face, trust and non-cooperation (p.43). The 1995 General Household Survey indicated that 85.5 per cent of 2.5 million Singaporeans over 10 years of age professed some kind of religious or spiritual faith (Balachander, 1997:37). Of the approximately 2.5 million, 53.8 per cent (almost all Chinese) were either Buddhists or Taoists, the latter believing in the Chinese sages (Confucius, Mencius, Lao Zi), practising ancestor worship or belonging to other Chinese sects (p.37). In Singapore, Buddhism, Taoism and Confucianism are traditionally mixed. Islam was the religion for 14.9 per cent of the population (mainly Malays) and 3.3 per cent were Hindus, all of whom were Indians. Christians formed 12.9 per cent of Singaporeans, nearly all being Chinese (p.37).

Kuo (1987:22) argues that the fundamental Confucian ethic of the value of filial piety is 'still strongly held among the Chinese in Singapore'. The way it is expressed has changed, but the obligation to care for a family's older members still prevails. The patriarchal family is also being replaced by the egalitarian one. The Confucian tradition supports respect for authority, government and bureaucracy, with the government being for the good of the people rather than the ruler (Chwee Huat Tan, 1989). There is loyalty to good leaders, a preference for order and harmony, and 'a taste for education and hard work' (p.13). Singapore is not 'a pure Confucian society', and so it is difficult to attribute the economic success to Confucianism (Wong & Wong, 1989:7). Devan (1990:4) agrees that economic success was not so much due to 'some mystical Confucian magic' as an intelligent and hard-working population and good leadership. However, Prime Minister Goh has referred to Hofstede's work for political purposes; he interpreted it as showing a 'strong statistical correlation between economic growth and dynamic Confucian values' (Cheng Soon Tab, 1991:3).

The Singaporean Government has inevitably taken an interest in the values system of its people and has used several instruments to promote values and national integration. They include 'the promotion of economic development, public housing, national [male military] service, educational policies, the mass media, periodic national campaigns, and grassroots organizations' (Quah, 1990a:45). In 1989, the government commenced a two-year debate on formulating some core values for a national ideology in order to cultivate national identity and counter over-Westernisation.

Work Values

There has been some limited research by local and foreign writers such as Hsu (1987) and Redding and Casey (1976) on the values of Singaporean workers. Singaporeans are conscious of the interaction of their culture with the work organisation and there have been past calls for a change in Singaporean values from senior government officials, moving them from 'individualism' to 'team-work' in the development of 'new industrial relations' (Chua Beng Huat, 1982:328). The rise of 'individualism,' apart from traditional cooperation within the family, has been attributed to the emphasis on educational and occupational achievements and the material gain from the capitalist system (p.329).

Local writers have stereotyped the Singaporean worker in the past as exhibiting loyalty and commitment to a job, job-hopping, unpunctuality, and a reluctance for overtime and shiftwork (Chew Soon Beng, 1983). Regarding management, Chong Li Choy (1987) argues that although Chinese management values in Singapore have been based on Chinese family and cultural traditions, these values and practices have had to change over time. The proliferation of MNEs has led to a second source of influence, although the Chinese influence still holds sway. The traditional Chinese family business is run on paternalistic and authoritarian lines, but the industrialisation and changing social structure 'has made it increasingly difficult to retain family in the business' (p.137). Keys, Case and Edge (1989) support the view that management practices have been affected by the Chinese family system, although Singaporean managers have assimilated overseas practices so that 'Singapore must be observed as a multinational mix' (p.392).

Employment Law in Singapore

Prior to independence, Singaporean employers were subject to various statutory instruments dating back to 1921. Arbitration boards, courts of inquiry and industrial courts to handle industrial disputes were set up in 1940, followed by British Colonial Government Ordinances for union control, minimum working conditions, and the Industrial Arbitration Court in 1961. With the separation of Singapore from Malaysia in 1965, significant legislation quickly followed. Work permit legislation was passed to restrict the numbers of unskilled workers coming into Singapore, as unemployment was very high. Unions were recognised for collective bargaining, but non-Singaporeans and those with criminal records were excluded from holding office. All union officials and employees had to be registered. From 1967, statutory body employees could only join company (in-house) unions, and in 1968, the two fundamental pieces of employment legislation were passed — the Employment Act and the Industrial Relations (Amendment) Act. The former was designed to increase productivity, standardise working conditions, and eliminate excessive fringe benefits and overtime payments, with a view to attracting MNE investment (Goh Mong Hak, 1969). The latter defined the rights of management and unions, and placed selection, promotion, work allocation and retrenchment of staff clearly within the prerogatives of management (Josey, 1976).

Throughout the 1970s, redundancy payments, workers' compensation, unfair dismissal, safety, and employment of young persons were all legislated for, and the Skills Development Levy was imposed in 1979. From a compensation viewpoint, the 1975 amendment to the Employment Act was important, in that the government provided for stricter controls of the system of annual wage supplement (AWS) (commonly known as the '13th month'), and for bonuses and wage increases which had been recommended by the National Wages Council in 1972 and incorporated in Section 46. Employers could only pay an additional annual wage supplement in excess of the quantum frozen in 1972 with the written prior consent of the Minister of Finance.

The 1968 Employment Act has been amended several times in recent years to include more flexible arrangements for maternity leave, work schedules, greater annual leave with length of service, and clarification of rest days and public holidays. From 1975, the Act only applied to those earning less than S$750 per month, but the government raised this to S$1500 per month in 1992, and S$1,600 per month from 1 March 1996 (Labour News, November, 1995). The Employment Act covered about 72 per cent of the workforce in 1995, the exceptions being those employed in a managerial executive or confidential position, seamen, domestic servants, and persons employed by statutory bodies or the government (Labour News, November, 1995). Rising incomes has caused this percentage to drop from 79 per cent in 1992. The current Employment Act gives the period of notice required according to length of service, how payment of salary should occur, sets overtime rates and limits, the AWS, rest days, weekly hours of work to a maximum of 44 hours per week over an average of two weeks, a maximum working day of 12 hours with some exceptions, shift work, public holidays, annual and sick leave, retirement benefit, and fixes the minimum age for employment of young children (12 years), sets maternity benefits, and defines a 'part-time employee'.

The Singaporean Industrial Relations Act (revised 1985) is designed 'to provide for the regulation of the relations of employers and employees and the prevention and settlement of disputes by collective bargaining and conciliation and arbitration' (p.3). It covers the functions and powers of the Industrial Arbitration Court, collective bargaining, arbitration, awards, and Boards of Inquiry. Under Part 3 of the Act, any employee who is hired under a contract of service can be a union member of a 'rank and file' union, unless the Minister of Labour (Manpower) deems otherwise or the person is an executive or manager. A registered trade union can seek recognition from an employer provided that it represents the majority of eligible employees (Section 16). An employer can refuse recognition on the grounds that there are insufficient members or that another union already has coverage, The Industrial Arbitration Court can be asked to settle the matter (Section 16). There is legal employment protection for existing or potential union members.

The union, once recognised, may invite the employer to negotiate. Similarly, the employer may invite the union to negotiate. Failure to do so may result in the intervention of the Commissioner for Labour (Section 19). Negotiations may end in a collective agreement. Under the Act, this must be of at least two years' duration and not more than three (Section 24). To preserve managerial prerogative, an agreement must not include provisions on the promotion, transfer, hiring, retrenchment, dismissal or work allocation of the employees (Section 17). The provisions may not be more favourable to employees than those under Part 4 of the Employment Act (which covers rest days, hours of work, sick and annual leave) if the employee is working in an organisation that started operations after 1 January 1968, unless the firm is given permission by the Minister to do so. Any disputes arising out of the collective agreement can be submitted to the Industrial Arbitration Court for adjudication. Registered collective agreements and awards are enforced by Ministry of Labour (Manpower) inspectors, who may enter any place of work at any time (Section 55). There is no minimum wage or equal pay or opportunity legislation in Singapore. While the author could find no official reason for this, it seems to be in line with the rest of the Asian region (Jackson, 1997). One might conjecture that this may be to do with the presence of Islamic law alongside the legislative system in some Asian countries such as Malaysia (p.263). As mentioned earlier, Singapore has large numbers of adherents of Islam.

The implications for the MNE setting up in Singapore are that a large operation may attract union interest, and if the union gains formal recognition through recruitment of sufficient members, the MNE may have to negotiate a collective agreement. However, this will only apply to employees who are first-line supervisors without staffing authority and below. The Employment Act provided a 'floor' for conditions of those earning up to S$1,500 per month in 1995, but above this salary limit, the MNE had considerable freedom to negotiate compensation on an individual basis.

Personal and Company Taxation

One aspect which may particularly affect the packaging of compensation for employees is the rate of income and benefits taxes. The direct taxes in Singapore are company income tax, personal income tax, property tax, estate duty and stamp duty (SICC, 1997). There are no capital gains or payroll taxes, although a Goods and Services Tax was introduced in April, 1994. For the 1994 tax year, company tax was 27 per cent, and the maximum rate of the sliding scale income tax was 30 per cent (Foo Siang Luen & Rocha, 1995:126). Assessable individual employment income includes pay, commissions, bonuses and gratuities. Benefits in kind from the employer such as employer–provided houses and cars are also taxable. Personal tax relief is granted on family criteria, educational course fees, the foreign maid levy and other items (SICC, 1997:51).

The Central Provident Fund

The Central Provident Fund (CPF) was introduced by the Colonial Government in 1955 'to provide financial security for workers in their retirement or when they are no longer able to work' (CPF, 1992:2). Since its inception, the Scheme has become a comprehensive social security system which caters for retirement, home ownership and health-care needs. Both employees and employers must contribute a sum to the CPF based on a percentage rate of the employee's salary. The accumulated wealth thus 'accrues disproportionately to higher income groups' (Asher, 1993:157). The rates are reviewed by the government annually in the light of the economy's performance and international competitiveness. On 1 July 1994, the CPF contributions were adjusted to 20 per cent each by employees and employers (40 per cent in total). Lesser contributions are payable by both employer and employee where the employee is aged 55–59, 60–64 and 65 and over (SICC, 1997:63).

The CPF contributions are calculated on the ordinary and any additional wages of the employee. These include basic pay, overtime, incentives, commission, bonuses, leave pay, acting allowances, child-care subsidy, festive allowance, housing allowances, shift allowances, and tips. The CPF savings are not taxed and accumulate with non-taxable interest fixed at a rate based on average savings rates at four local banks. By adjusting the percentage payable, the government can influence the savings rate of the economy as a whole. The savings fund can be used to purchase a home, insure for medical care (Medishield), insure or purchase a Housing and Development Board flat, meet hospital expenses (Medisave), pay for life insurance (The Dependants' Protection Scheme) and for tertiary education or to invest in approved investments such as a property, unit trusts, and gold. The implication for the MNE is that while the CPF may not influence the structure of its compensation system, it will have a dramatic impact on the overall cost of labour.

The Industrial Relations System in Singapore

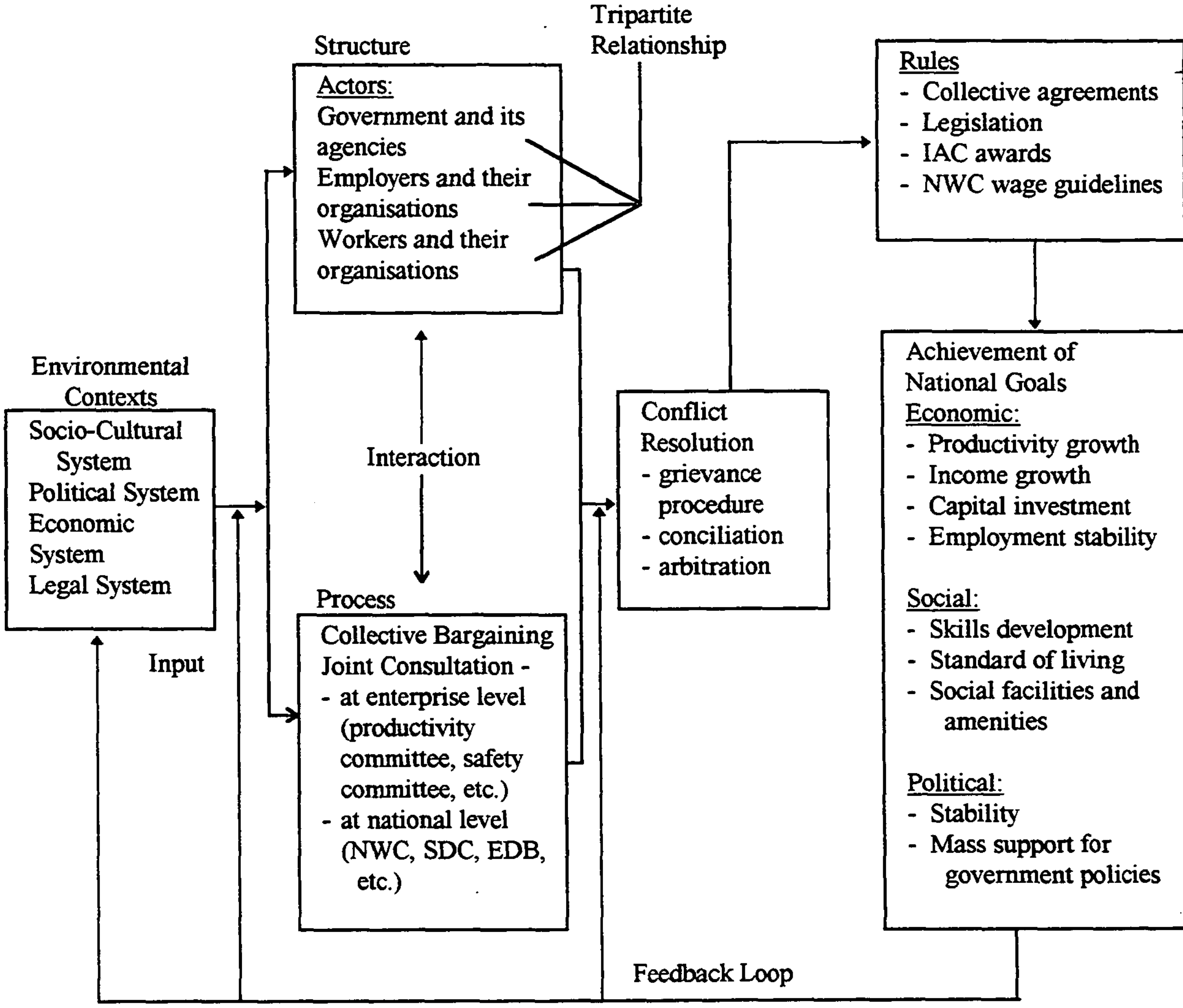
Like the system of any other nation, Singapore's industrial relations (IR) system is unique and a product of its history, and economic, social, legal and political constraints (Schregle, 1981; Anantaraman, 1990; Foo Check, Chan Choon Hian & Ong, 1991) despite drawing heavily initially on the Western Australian IR model (Oehlers, 1997). The main features are said to be its recent institutionalisation in law, its centralisation and legalism, and the central role of government and its agencies (Foo Check Teck et al., 1991; Abraham, 1988). The centralisation of decision making has been partly attributed to the compactness of the island, its vulnerability as a strategic port and the need to attract MNE investment. The dominance of the government in industrial relations through its legislation and administrative rules is thought to 'explain in part why the essentially conservative international businesses find Singapore such a reassuring place' (Pang Eng-Fong & Tan Chwee-Huat, 1975:131). The official view was that it was 'too risky and dangerous' to leave the maintenance of industrial relations to the parties to the employment contract themselves (Tan Boon Chiang, 1979a:197), and that while employment and industrial relations law might appear anti-union to the outsider, it has brought a greater distribution of wealth and well-being to the workforce (Tan Boon Chiang, 1979b).

While worker organisations existed in Singapore prior to 1946, they were not involved in collective bargaining. Trade unionism in Singapore is essentially a post-war phenomenon, with the first union being registered in 1946 (Tan Siew Eng, 1979/80). The period 1950–69 was characterised by bitter rivalry between unions and employers. After independence in 1965 and the greater regulation of unions, the National Trade Union Congress (NTUC) was asked to emphasise the interests of society rather than of labour, to replace adversity with cooperation, play an educative role, and start up some cooperative business ventures in the economy (Anantaraman, 1990). It cooperated with the government in adopting a more consensus–driven tripartite approach to industrial harmony. The 'development orientated' industrial relations system emerged from 1965–68 (Tan Joke Fong, 1980/81).

In 1963, the number of days lost through official industrial stoppages was 388,219 (State of Singapore Annual Report, 1963 [1964?]: 237); this steadily declined to none by 1978. Since 1978, there have been no official industrial stoppages in Singapore except for one of two days' duration, settled by conciliation in 1986, which resulted in the loss of 122 man-days. The reason for decline in overt conflict has been attributed to the government's encouragement of the National Trade Union Congress (NTUC) to become 'more responsible' and 'less politicised', and to an expectation that the government would deal severely with any union militancy (Wilkinson, 1986:111). Conciliation and arbitration channels can be used to process a dispute over the legislated areas for negotiation and/or referred to them by government (Anantaraman, 1990). Foo Check Teck et al. (1991) conclude that this has led to two main characteristics of the Singaporean system: (1) the tripartite interaction of government, employers and unions on various national bodies that 'has forged a common ideology which is closely aligned to the economic and socio-political goals of the country' (p.5), and (2) the legislation of the dispute resolution and collective bargaining process which permits voluntary negotiation and conciliation, and if necessary, compulsory arbitration.

A model of the industrial relations system in Singapore is shown in Figure 5.2. This model shows the environmental context for industrial relations, the actors, the process of collective bargaining, joint consultation at the enterprise level and at national level through the National Wages Council (NWC), Skills Development Council (SDC), and the Economic Development Board (EDB). It also indicates the conflict resolution methods of local grievance procedures, conciliation, and arbitration, which are

Figure 5.2
A Model of the Industrial Relations System in Singapore



Source: Foo Check Teck, Chan Hoon Hian and Ong, D. (1991) A Primer on Collective Bargaining, Singapore, McGraw Hill, p.4.

constrained by the rules of collective bargaining, legislation, IAC awards and NWC guidelines. Krislov and Leggett (1985a:175) sum up the Singapore system as having a 'long-standing commitment' to compulsory arbitration, possessing the constraints on the scope of collective bargaining, and achieving 'the engineered transition from "confrontational" to "non-confrontational" labour–management relations'.

The Ministry of Labour and Industrial Arbitration Court

The government's leading role in Singaporean industrial relations is played through its legislation, and its two main agencies — the Ministry of Labour[4] and the Industrial Arbitration Court (IAC). Employers and unions may submit a dispute to the conciliation section of the labour relations department of the Ministry of Labour. The Ministry staff cannot arbitrate, but in the event of failure to resolve an issue, the parties may jointly or separately request the dispute to be arbitrated by the IAC. The Minister of Labour or the President of Singapore may also submit a case to the IAC, the latter for disputes affecting the public interest (Section 31d of the Industrial Relations Act). In 1995, the Conciliation Section of the Ministry of Labour received 305 trade disputes compared with 333 in 1994 (Ministry of Labour, 1996). Including cases carried over from the previous year, 311 disputes were settled by conciliation and only three were referred to the IAC for arbitration, a pattern which has been evident for many years. A number of claims are withdrawn each year by the parties once the conciliation process has started, and individual non-union employees may also seek redress through conciliation at the Ministry.

The Ministry of Labour administers the recognition of unions procedures, unfair dismissals and registration of unions. By contrast, the IAC, set up in 1960, tries to prevent and settle disputes through its powers given to it by the High Court. It has jurisdiction, as Foo Check Teck et al. (1991) write, to:

(a) arbitrate trade disputes
(b) certify collective agreements freely and mutually agreed between employers and trade unions
(c) interpret, vary, set aside and extend collective agreements and awards
(d) appoint referees
(e) order compliance with an award of the Court and to enjoin a trade union or person from committing or continuing a contravention of any provision of the Industrial Relations Act or breach or non-observance of and award
(f) provide a limited form of informal conciliation powers.

In addition, the IAC can punish for contempt of court and inspect work sites, materials or machinery relating to a trade dispute. An IAC decision is final and not subject to appeal (Balachander, 1997). In 1995, the IAC received 11 cases, 9 of which involved variation of collective agreements, and 2 of which related to non-

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[4] The Ministry of Labour was renamed the Ministry of Manpower on 1 April 1998 (Manpower News, August, 1998).

compliance with terms of collective agreements (Ministry of Labour, 1996). The IAC remains important and 'has never been seriously challenged' (Krislov & Leggett, 1985b:23), and the increased 'authority, status and prestige' which the Singaporean Government has bestowed on the Ministry of Labour has also been thought to have led to union and employer respect for its activities (Wan Liang Tin, Yacob & Soo Kia Twee, 1986:250).

The Unions

In Singapore, anyone over 16 can join a union, except those serving in the Singaporean Police Force and the Armed Services. A person may not join a union if he or she has direct responsibility for, or substantive influence on hiring, firing, promotion, transfer, reward or discipline of staff, has duties which may conflict with union membership, has access to confidential information, or has to represent the employer in labour relations (Labour News, April, 1992). The main criterion for exclusion from joining a union is 'conflict of interest'. According to an interviewed SNEF official, 'sometimes the employer will give bogus titles like "assistant manager" to avoid unionisation'. Other restrictions are placed on employees working for some statutory boards who have to form or join house unions only. At least seven intending members must apply to register a union to the Registrar of Trade Unions who examines the proposed rules and constitution. However, a union can only bargain on behalf of its members if it has recognition from an employer. This can be granted directly or through secret ballot to show majority support if the employer is unwilling to provide recognition (Chew Soon Beng, 1991). A registered union can sue and be sued, and can enter into a collective agreement. The right to sue does not exist if the union stops its members working as part of a trade dispute. The officers and members are similarly protected. However, a union cannot order industrial action unless a majority of the members support such action through a secret ballot.

In 1995, there were 81 registered unions in Singapore, of which 72 were affiliated to the NTUC, the main coordinating federation of unions (Balachander, 1996:241). From unpublished data provided by the NTUC, in 1991, there were 75 unions affiliated to the NTUC and 11 non-affiliated. Of the 75, 3 were general unions, 34 were house unions and 38 were industrial, craft or other types. Of the 11 not affiliated, 3 were house unions and 8 were industrial, craft or other types. The membership of NTUC affiliated unions was evenly divided between the industrial (33.9 per cent), service (34.6 per cent) and public (31.5 per cent) sectors. There were some 8,000 union officials in the branches, 1,338 in union head office roles and 21 on the NTUC central committee. With the changing occupational and skill profile in Singapore, the percentage of NTUC affiliated union members of the estimated bargainable workforce declined from 25.18 per cent in 1985 to 23.37 per cent in 1994 (NTUC News Weekly, 23 June 1995:3). General branch membership is available to trade union members in a non-union shop. Benefits include discounts in departmental stores, holiday resorts and cooperatives, but not collective bargaining rights. The membership and number of unions for selected years from 1985–95 is shown in Table 5.5.

Table 5.5
Union Numbers and Membership, Singapore, Selected Years, 1985–95

Year	Total Number of Unions	Membership	Union Density of Total Workforce %
1985	84	201,132	15.6
1990	83	212,204	14.2
1995	81	235,157	13.4

Source: Department of Statistics (1995) Yearbook of Statistics, Singapore, Department of Statistics, p.50; Research and Statistics Department (1995) 1995 Singapore Yearbook of Labour Statistics, Singapore, Ministry of Labour, pp.3 and 74.

Table 5.5 depicts a fairly low overall level of union density in Singapore. This may be the result of the NTUC's recruitment strategy as it has not fought for the introduction of closed shops or for compulsory levies on 'free-riders'; in addition, there are no union preference clauses in collective agreements or closed shops.

The Employer Associations

Research on employer associations as actors in the Singaporean industrial relations system is minimal. Employer associations in Singapore have to be registered under section 2 of the Trade Unions Act. Their principal objectives are to promote good industrial relations, to improve working conditions and to increase productivity for the benefit of employees, employers and the Singaporean economy. Membership of an employer association is not compulsory and the Singaporean Statistics Yearbook for 1995 (Department of Statistics, 1995) shows there were three main registered employer associations, with 1,225 members. However, these government membership figures seem to differ from those reported by individual associations.

The largest employer association — the Singapore National Employers' Federation (SNEF) — was established in 1948 and merged with another association (National Employers' Council) in 1980. SNEF had a membership of 917 employers of 204,404 employees by 1988 (Foo Check Teck, Chan Choon & Ong, 1991) and 1580 members in 1998 (SNEF: www.snef.org.sg/co_info.html, 15/01/98). The staff of the SNEF consist of industrial relations and occupational health and safety advisers, training and development and research and publications staff. The SNEF historically has concentrated on participating in and advising on collective bargaining; coordinating negotiating panels for industry groups; acting as an information centre; providing advice on a daily basis on conditions of service issues including salary structures; undertaking surveys, training and development; and giving advice on occupational health and safety. At a national level, the SNEF participates in tripartite committees such as the National Wages Council (NWC), the Singapore Productivity and Standards Board (SPSB), and Central Provident Fund. Along with the Singapore Confederation of Industries (founded in 1932 and claiming 1,400 corporate members) and the Singapore Federation of Chambers of Commerce and Industry, the SNEF attempts to develop common employer policies, especially in times of change of wages guidelines or employment legislation (Yaw & Leong Choon Chiang, 1996). In the past, the SNEF has openly declared that it wants a union movement which is 'viable and strong' and viewed the NTUC and the unions as 'an asset' (Singapore Employer, July 1985), but resists the coverage of managerial staff by unions.

In the early 1970s, the SNEF was happy to support an incomes policy via NWC guidelines, but since 1979, has shown more preference for direct negotiation at plant level 'using moral suasion' on companies not to exceed NWC recommended rises (Chew Soon Beng & Chew, 1995:98). The SNEF, as a member of the NWC, has to abide by its decisions, although would prefer the NWC to have a reduced role (p.98).

In recent years, it has been a strong advocate for more flexibility in the wages system, particularly in linking pay to company productivity and performance (p.105). In this regard, the SNEF emphasised the dangers of increasing the retirement age with compensation systems based on seniority.

Incomes Policies

In Singapore, strong government intervention is evident in both the demand and supply side of the Singaporean labour market. As well as being a large employer, the government has passed laws affecting compensation, the supply of local and foreign labour, and the role of trade unions (Ho Soo Kiang, 1988), and is an active participant on the National Wages Council (NWC). This body consists of equal numbers of employer and union representatives, government officials and a neutral chairperson.

When first formed in 1972, it was estimated that the NWC might last for two or three years. However, it has endured to the present time and its original terms of reference have not changed. The objectives of the NWC are to:

> (1) assist in the formulation of general guidelines on wages policy;
> (2) recommend necessary adjustments in wage structure, with a view to developing a coherent wage system consistent with long-term economic development; and,
> (3) advise on desirable incentive schemes for the promotion of operational efficiency and productivity in various enterprises.
> (NWC,1992:vii)

The NWC's main concern is with national wage issues and not compensation at company or industry level. However, in recent years its scope has gone beyond national wages only. It is an advisory body that reviews wage rates and trends annually in a macro economic context, and then makes recommendations to the government for acceptance, rejection or modification them (NWC, 1992). The government to date has never rejected the recommendations of the NWC. The government, union and employer representatives have to be unanimous in their decision, and while the wage guidelines do not have the force of law, the government's support gives them significant authority as the basis for collective bargaining. The various parties put up separate position papers but use government economic data sources. Only recommendations are made public to encourage freer exchange by the parties.

Oehlers (1991) believes the close adherence to the guidelines results from (1) the apparent tripartite support which lends legitimacy, (2) their full acceptance in the public sector, and (3) the use of the guidelines by unions for benchmarks in negotiations. The government appoints members to the NWC, implements the guidelines in the public sector, and, very occasionally, directs the NWC to accept certain wage increase guidelines (Ho Soo Kiang, 1988). Non-unionised workers are not represented on the NWC; neither are employers not in the major employer associations. The employers represented are usually large local and multinational companies (Oehlers, 1991).

Over the years, the NWC has not just set wage guidelines. Its discussions have ranged over job-hopping, employee benefits, CPF increases, exchange rates, retirement ages, flexible wages systems, training, part-time workers, and foreign workers as well (NWC, 1992). A summary of the guidelines from 1972–97 is shown in Appendix 5.1. Its recommendations, which apply from 1 July of each year until the following June, can be divided into four phases:

(1) Moderate wage increases, 1972–78
(2) High wage increases, 1979–84
(3) Wage restraint, 1985–87
(4) Qualitative wage guidelines, 1988 to present.
(NWC, 1992)

Following the 1985 economic recession, the NWC set up an inquiry in 1986 which examined ways in which the wages system could be made more flexible and responsive to changing business conditions. Their recommended new compensation structure, to be phased in over five years, was as follows:

(1) a basic wage based on job value
(2) an annual wage supplement of one month's basic wage which was adjustable in exceptional circumstances
(3) a variable wage component, the size depending on profitability and/or productivity
(4) a small service increment for length of service, loyalty and experience
(5) a reasonable salary range of 1.5 times between the maximum and the minimum salary. (Summarised from NWC, 1992:xiii)

To expedite a flexible compensation environment, the NWC has since 1988 provided qualitative rather quantitative guidelines, with employers being urged to pay bonuses in line with company and individual performance. The problem at issue was wage structures which were 'typically seniority-based, with long salary scales and pre-determined wage increases' (NWC, 1992:xxiii). The quantitative wage increase recommendation therefore exacerbated this, and was a particular problem in the recession years. The NWC concluded that despite the complexity involved in changing their systems, 'many companies' have now changed to more flexible compensation approaches using profits as a criterion for overall wage rises and bonuses (NWC, 1992:xxiii).

In 1993, a NWC committee reviewed the flexible wage system with a view to maintaining Singapore's competitive edge and protecting employers and employees in times of recession (Straits Times, 20 November, 1993). Its recommendations, which were accepted by the government, gave companies the choice of giving fixed annual or service increments for two or three years in their collective agreements or negotiating a separate increase each year. Other recommendations included making annual built-in pay rises lag behind productivity, making maximum salaries 1.5 to 2 times more than starting pay, incorporating more than one month's AWS into basic pay, raising the variable component of wages and AWS to 20 per cent (the national target), discontinuing the two months' cap on wages if both parties agree to greater sums, introducing more performance appraisals for individuals and teams, and encouraging firms to disclose performance indicators during negotiations. Flexible wage systems were said to be operating in 85 per cent of unionised companies and 70 per cent in non-union ones (Straits Times, 20 November, 1993). The variable component of the national wage bill was estimated by the NWC to be about 16 per cent, compared with the national target of 20 per cent (NTUC News Weekly, 16 June 1995). While its recommendations have no statutory force and are nowadays more qualitative than quantitative, the NWC is likely to remain a significant institution in the coming years in Singapore (Leggett, 1993c). It has contributed to an initial national IR/HR strategy of cost containment through tripartism, centralised wage determinism and restricted areas for bargaining, followed by a more recent strategy of decentralisation to the enterprise, worker flexibility and skills development (Kuruvilla, 1996).

The Overall State of Singaporean HRM

As the design of compensation systems in an organisation interacts with other HRM functions, the current pay systems in Singapore should be considered against a background of other HRM functions in the country, but space will only allow a brief summary of the main research findings from several surveys on HRM practices.

A 1990 monograph on HRM practices published by the National Productivity Board and the Singaporean Institute of Personnel Management was based on a survey of 408 companies (one third of which were MNEs) employing more than ten people. The main findings were that the existence of an HR department was positively correlated with company size and most frequently found in MNEs (p.4). Of the firms with HR Departments, half had a HR manager and a fifth had the department reporting to the CEO (p.6). As might be expected, organisations with HR Departments were more likely to have HRM policies, formalised systems, and computerised records (pp.16 & 44). Over 80 per cent of the respondents provided formal training and more than three-quarters conducted formal performance appraisals of managers, supervisors and 'rank and file workers' (p.31). Perhaps the most interesting finding in the context of this thesis was that more than three-quarters of companies claimed to use some form of incentive scheme (p.29). Individual performance-based pay was the most common incentive for managers (66 per cent), supervisors (61 per cent) and 'rank and file workers' (65 per cent) (pp.28–9). The rank order for managerial incentives was profit-sharing, productivity incentives, employee stock ownership plans and small group incentives. About one quarter of incentives for supervisors were productivity based, another quarter received profit-sharing, with 11 per cent on small group incentives and 5 per cent on employee stock schemes. Apart from the individual-based schemes, about 33 per cent of rank and file incentives were based on productivity, 26 per cent on profit-sharing, 16 per cent on small groups and 4 per cent on employee stock ownership (p.30). The monograph does not detail the features of these schemes or distinguish between individually based, business unit or corporate performance criteria. There is also no discussion on the concepts of variable pay as defined by the NWC, but the survey does imply that compensation flexibility was widespread.

These results can be compared with Chew and Teo's (1991) survey of recruitment and selection, job analysis and training methods in 173 establishments of one to 500+ employees, 52.6 per cent of which were foreign owned, 15.6 per cent were joint local–foreign ownership, and 31.8 per cent locally owned (p.30). Of the local companies, 78 per cent had HR departments, compared with 59 per cent of the jointly owned firms and 72 per cent of the foreign owned businesses. Newspaper advertising and employee recommendations were the most popular recruitment methods for all ownership types as was the structured interview for selection (pp.32–3). Foreign owned firms were more likely than local ones to have written job descriptions and formal annual training plans.

Other studies have been conducted on particular aspects of Singaporean HRM. Yuen Chi-Ching and Yeo Keng-Choo (1995:262) concluded that 'most corporate human resource systems' mainly concentrated on the traditional functions of personnel administration such as recruitment, welfare, discipline and grievance handling. The government had encouraged more attention to compensation design, performance appraisal and training, but while performance appraisal was widespread, it was mainly for compensation rather than development purposes, and was very subjective, difficult at lower levels because of different dialects, and usually 'closed' because of the cultural fear of 'loss of face' (p.258). Shaw, Kirkbride, Fisher and Tang (1995) compared HRM practices in Singapore and Hong Kong and found that the use of Hay job evaluation by local firms in both countries was small (p.33), that Singaporean firms (of all ownership types) were more likely to use formal performance appraisal, extensive selection procedures, and sophisticated compensation systems (including incentives) than Hong Kong organisations (p.34).

Finally, it must be remembered in a summary like this that family businesses employing between 10 and 100 workers still form about 80–90 per cent of the companies in Singapore (Lee, 1996). While major research studies on these are scarce, the distinctive features of Chinese firms in Singapore are 'human–centredness, family–centredness, centralization of power, and small size' (p.63). With the exposure to Western management concepts, Lee reports that 'many Chinese organizations have started implementing monthly meetings, planning sales strategies and budgets, setting recruitment criteria, and producing reports' (p.66). While the perceived approaches to productivity improvement in larger locally owned companies and Western MNEs in Singapore appear to be generally similar, Foo Check-Teck (1992:604) believes that there is a greater emphasis by Western MNEs on using 'a broad spectrum of means' to improve productivity. In any case, there is an argument that applying Western-style methods to transform an 'informal, loosely structured (but tightly controlled) Chinese enterprise ... will fail' (Weiddenbaum, 1996:155).

Wage Systems in Singapore

For the purposes of this section, wage systems are taken to mean the compensation systems of those employees (blue and white collar) who are covered by the provisions of the Employment Act in Singapore and who are eligible to participate in a collective agreements (i.e. bargainable employees). Documented material on wage systems used in the 1960s is unavailable, but more recently, data have been collected by the NWC, the Ministry of Labour and the Singapore National Employers' Federation (SNEF) through the latter's surveys. As might be expected, data are richer for wage systems, but less plentiful for salary structures and executive compensation.

Wages schemes in Singapore can probably be divided into two types: the informal and the collective bargain. As many Singaporean companies are small or medium-sized family owned businesses, they are mainly non-union. According to an interviewed SNEF manager, the owner or 'father' of the family would decide the compensation for each individual in the firm. Added to these are the occupations which cannot be represented by a union. As a result of the Employment Act, the position in 1994 was that one million employees were eligible to be covered by unions (bargainable employees) and 646,000 (such as managers) ineligible (NTUC News Weekly, 1995, 23 June). There is therefore more freedom to design systems for the non-bargainable employees. The wage system choices facing the MNE include using a job evaluation system, paying for skills, education, length of service, age (junior staff), performance, or qualifications (Magota & Suzuki, 1988), and/or incorporating one or more of these in a collective agreement. There is no stipulated minimum number of employees for a collective agreement and it can be as low as three.

The wage system in Singapore of the 1960s (which until then had conformed to the various Labour Ordinances of the mid-1950s) underwent a change in focus when the Industrial Arbitration Court (IAC) began operations on 24 October, 1960. By June 1962, 219 agreements covering 45,924 employees had been certified by the IAC (Foo Chee Hiang, 1962). Koay How Seang (1966) estimates that by the end of 1965, between 900 and 1,000 agreements had been certified. A key issue of this era was whether bonuses were a right or a privilege (Foo Chee Hiang, 1962). Prior to 1960, it had been the practice for Asian firms to pay low wages but to supplement these with a bonus 'loosely linked to profits' at the time of the main festival (Chinese Lunar New Year) (p.40), a custom which eventually became enshrined in law (Oehlers, 1997). MNEs adopted the same principle, paying a bonus as a flat sum, an annual increment, or an amount based on profits. While the IAC decided that a bonus was at the employer's discretion, Foo Chee Hiang (1962) argues that by 1962 the annual bonus had become a traditional and accepted condition with the majority of small and large employers (p.41).

Another feature of the wages system in Singapore is attributed originally to the salary scales established by the British Colonial Government for civil servants (NWC, 1992). The salary scales with their pre-determined fixed points were then adopted by private industry and incorporated into collective agreements. Two advantages perceived for the system were the automatic compensation for the loss of purchasing power due to inflation, and a sense of advancement and reward for length of service (NWC, 1992).

The number of collective agreements (usually of three years' duration) certified by the IAC remained fairly similar from 1980–90. There were 394 certified agreements in 1980, a peak of 470 in 1981, then dropping to 348 in 1987, and 344 agreements in 1990 (Ministry of Labour, 1991). The IAC certified 462 collective agreements in 1995 affecting 46,169 employees, 98 per cent of the agreements being in the private sector (Ministry of Labour, 1996:16). After the high wage increase years of 1979–84 driven by the NWC recommendations, the deterioration in the economy in 1985 led to some rethinking of compensation systems in Singapore. In 1986, most firms in the non-unionised private sector (which covered 56 per cent of the work force) had some form of salary range in which the annual increments were not predetermined (NWC

Secretariat, 1986:1). Compensation rises would be determined by market forces, NWC guidelines or copying unionised companies' increases. Nevertheless, most non-union firms paid the AWS (NWC Secretariat, 1986). Employees in the unionised private sector, which covered 28 per cent of the workforce, had their wages governed by collective agreements which usually incorporated salary scales or ranges, pre-determined annual increments in each scale, annual NWC wage adjustments and either the AWS or bonus. Occasionally, special merit increases were given as well. The wage system of the mid-1980s in Singapore was therefore (1) fixed increments, (2) increments based on seniority rather than performance, (3) a fixed AWS, (4) topping up for NWC adjustments, and (5) NWC Guidelines not based on company profitability — all of which compounded wage escalation and granted increases irrespective of company performance (Lee Kok Wai, 1989: 6).

These shortcomings led to the concept of flexible wages being advocated in Singapore, with some initial apprehension by unions as to the outcome (NWC, 1992). Issues confronting management and unions were how performance, productivity and profit should be measured, the formulae for annual bonuses, the lack of performance appraisal schemes, and how to attract and retain employees in a tight labour market (NWC, 1992). The initial response by companies to the wage reform (i.e. a basic wage, a service increment, 1 month AWS and a variable component of 2 months) was cool.

The Singapore National Employers' Federation (SNEF, 1987) tried to encourage wage reform by publicising wage reform models to members. It analysed 29 wage models operating in Singapore and found that profit-sharing had been the most widely adopted model. In the majority of cases, the company had decided on a 'threshold level of profits', and bonuses would only be paid when this was exceeded (p.17). A few other firms had agreed to a productivity-related model using the national productivity figure. The intention was to ensure that wage rises did not exceed national productivity increases. The suggested flexible structure was then a basic wage, one to three months of AWS (13th month), and a variable component that could be divided into a service portion and a productivity portion (p.19).

By 1988, the SNEF (1988:i) stated that 'a large number of companies' had still to introduce wage reform. Data from the NWC (1992) appeared more optimistic than those of the SNEF. The NWC believed that over 80 per cent of unionised companies had a 'formal flexi-wage system', and while the figure was less for non-union firms, there might have been flexible (though not formalised) arrangements in these organisations (p.xxvii). Their conclusions were that 'many of the rigidities in our wage system have now been removed' (p.xxviii), and that the variable component in most compensation schemes was 15 per cent of total compensation (p.xxx). The chairman of the NWC has been quoted as saying that the desirable national level would be fixed wages as 80 per cent of total compensation (New Paper, 29 May, 1991:11).

On 16 November, 1992, the government announced another review of the flexi-wage system, and the following year received a report which was accepted by the NTUC. The NWC Flexible Wage System Review Committee made the following recommendations:

1. Built-in annual wage increases should lag behind productivity growth.
2. Companies should keep maximum salaries [in a pay grade range] to 1.5 to 2 times more than starting pay.
3. AWS that is in excess of one month's salary can be incorporated into basic pay if company and union agree.
4. Companies and unions are free to decide on the size of the variable component. If circumstances permit, the variable payment can go beyond the ceiling of 20 per cent of total wages or, in some cases, two months' wages.
5. The variable payment can be made at more frequent intervals instead of once every year.
6. Companies should have proper a staff appraisal system to accurately determine staff's performance.
7. Companies should share relevant information with unions and workers.

(NTUC News, 1 December 1993)

Despite the pronouncements on flexible pay from government, employers and unions, by 1994 the union movement was still saying that the outcomes with employers over service increments and variable bonuses varied from industry to industry. Companies were still having problems with measurable performance indicators, linking rewards to performance, the ability of union leaders to analyse productivity and financial data, and developing good relationships with the unions on these issues (NTUC News, Mid-June 1994). The seniority compensation systems were still in evidence as well (NTUC News, mid-October 1994), although unions were coming around to the notion of compensation linked to individual performance (via performance appraisal schemes and inclusion in collective agreements) (NTUC News mid-August 1994). In 1995, across the economy, the variable payment (AWS and variable wage component) was 2.28 months of basic wage or 16 per cent of annual wage — still short of the 20 per cent desired by the NWC (Labour News, October 1996). However, in 1997, the NWC supported an NTUC initiative to move wage systems to a 'base-up' model by which pay ranges for a job grade would be narrowed to a ratio of 1.5 for minimum and maximum of the grade (to reduce the pay for service impact). Variable pay would still be augmented on to these base scales (NWC, 1997).

Salary Systems in Singapore

Research on the compensation systems of non-bargainable employees in Singapore is extremely limited. These are the staff who are in managerial, executive or confidential positions under the Employment Act. The NWC (1986) Sub-Committee Report estimated that 16 per cent of the workforce were in non-bargainable positions (p.2). One potential data source is the SNEF biennial survey of executive pay, but this cannot be quoted for copyright reasons (except from extracts in press reports), and its cost exceeds S$1000 per issue.

Salary increases for these managers and executives are usually negotiated annually according to company performance and labour conditions. In addition to the basic salary, the executive may receive bonuses in the form of one-off lump sums (NWC, 1986). An SNEF official interviewed by the author stated that the most common salary system is a monthly basic salary reviewed annually and then increased by length of service increments, the Annual Wage Supplement (usually of one month, but higher in sectors such as banking, finance and insurance), adjustment against labour market movements, and variable merit bonuses (expressed in months of salary, usually an average of one to two months across all sectors). Merit rises may be based on performance appraisal results because pay-for-performance 'had been around for a number of years' at top corporate levels; companies were now considering it for lower-level staff, although performance appraisal schemes were usually subjective. However, some firms were doing objectives-setting with younger managers, while assessing the older managers on subjective criteria as before.

A consultant from Hay Management Consultants (Singapore) Ltd. suggested that MBO was not liked in Singapore, as many Singaporeans would 'prefer the boss to set their objectives'. Nevertheless, Hay Consultants operate in the country, use the same job evaluation (JE) system as in other nations, and have a major market share of the medium and large organisations in Singapore. The company also undertakes annual salary surveys that are summarised in the press. The SNEF offers assistance in installing an SNEF JE system for non-executive jobs and another in conjunction with Watson-Wyatt Worldwide Ltd. for executive positions called the SNEF–Wyatt Compers[5] JE System.

The Hay executive interviewed said that smaller companies can use the SNEF job evaluation scheme with collective agreements, as it is 'cheap and easy'. With the Hay system, 'the local context was taken into account and points allocated accordingly'. The points concept was still the same, 'but we translate the definitions to fit'. Most companies had salary ranges with minimum, mid-point and maximum levels. The SNEF rationale for JE was that the 1986 NWC wage reform recommendations included the principle that wages should reflect the value of jobs. An SNEF interviewee stated that the MNEs use the Hay system, whereas the SNEF system with its different factors is thought to be 'more suitable for Singapore'. Singapore Airlines, some public utilities and the Army were Hay JE system users. The Shell company used a Hay pay system tied into its performance appraisal scheme. A few of the Singaporean banks had more informal JE systems with grades and hierarchies. In general, the Hay JE system was not used widely for the non-executive levels as the SNEF alternative was more attractive.

Recent data on the composition of fixed and variable components of salaries were not available, but Hay Management Consultants' survey of 101 organisations (public and private) in August 1991 showed that 74 per cent of them were operating 'flexi-wage' policies compared with 68 per cent in the previous year (Straits Times, 26 October 1991). Basic compensation had remained the same, although the variable bonus had on average declined to an average of 1.44 months' pay in 1991, compared with 1.81 months' salary in 1990. Executive bonuses averaged 1.9 months' salary in 1992,

[5] 'Compers' is an acronym for 'Communication Based Personnel Systems'

according to a compensation survey of 80 medium and large companies (Straits Times, 3 October 1992). A Hay survey in 1993 of 105 companies found that bonuses averaged 1.8 months in 1993 compared to 1.97 months in 1992 (Straits Times, 30 October 1993).

Employee Benefits in Singapore

Conspicuously absent from the debate for reform of the compensation system in Singapore in the mid-1980s were recommendations for a review of employee benefits, with the minimum conditions being incorporated into the Employment Act of 1968. However, the NWC has made recommendations about the overall level and range of benefits in its annual guidelines, and more recently there have been proposals for flexible benefits in packages. The benefits given can be divided into the categories of statutory and negotiable.

The Employment (1968) and Industrial Relations (1960 and 1968) legislation sought to standardise and limit the range of employee benefits and restrict the area for collective bargaining. The Employment Act currently legislates for rest days, hours of work, public holidays, annual, maternity and sick leave, and retrenchment benefit. Although the Act does not expressly require medical benefits to be provided, Ong Chin Siew (1990) believes that section 44(1) 'appears to suggest that the employer does have such a legal obligation' (p.48). The Central Provident Fund (CPF) (established in 1955 and already discussed) provides financial and social security to retired employees. Pension (superannuation) schemes existed in the Civil Service and some large employers before contributions to the CPF became mandatory, but with the increasing contributions, were phased out by companies except in a few special cases (Teo See Sin, 1981/1982).

The employee benefits, which are negotiable, include hospitalisation benefits, health and medical benefit, insurance, dental benefit, transport, education, festive advance, payment for time not worked (various types of leave), savings plans, loans, clothing, legal advice, and employee services such as sports and social clubs, canteens, discount purchases, and health centres (Teo Ee Sin, 1981/1982; NPB/SILS,1993). An indication of the types of employee benefits incorporated in collective agreements for all sectors, signed between 1 July and 31 December 1986, is given in Table 5.6.

Table 5.6
Types of Employee Benefits Covered in Collective Agreements for all Sectors, Signed Between 1 July and 31 December, 1986

Type of benefits	Distribution of Cas	
	Number	Percent
Major benefits		
1. Retirement Age	123	100.0
2. Annual Leave	123	100.0
3. Compassionate Leave-Death of family member	119	96.7
4. Compassionate Leave-Critical illness of family member	91	74.0
5. Marriage Leave	81	65.9
6. Paternity Leave	48	39.0
Other Benefits		
7. Uniform/Wearing apparel	80	65.0
8. Dental Care	62	50.4
9. Life/Accident Insurance	48	39.0
10. Shift Premium	47	38.2
11. Laundry Service Allowance	40	32.5
12. Acting Allowance	30	24.4
13. Overtime Premium	28	22.8
14. Transport Allowance	23	18.7
15. Study Incentive/Exam Leave	20	16.3
16. Festival Leave	20	16.3
17. Service Benefits	19	15.4
18. Meal Allowance	14	11.4
19. Tea/Coffee	14	11.4
20. Death Cash Grant	13	10.6
21. Outstanding Site Allowance	10	8.1
22. Maternity Allowance	9	7.3
23. Attendance Bonus	8	6.5
24. Fairprice Share Purchase	8	6.5
25. Welfare Contribution to Union	8	6.5
26. Productivity Incentive	7	5.7
27. Standby Allowance	7	5.7
28. Car/Housing/Personal Allowance	-	Less
29. Housing Allowance	-	than
30. Time off for festivals	-	5%
31. Work Hazard Allowances	-	

Source: NTUC (1986) Technical Newsletter 14, and Chew Soon Beng (1991) Trade Unionism in Singapore, Singapore, McGraw-Hill, p.99

The table shows that all agreements had provision for annual leave and retirement age, and that the majority cater for other types of leave, marriage leave ranging from 2 to 14 days according to industry (Chew Soon Beng, 1991). The Employment Act does not include provisions for compassionate, marriage or paternity leave. While the table shows the overall pattern of benefits, there is variation across industry and, surprisingly, no mention of hospitalisation benefits. Chew Soon Beng (1991) studied

153 1985–86 agreements in the manufacturing sector and found that all of them provided for free or subsidised medical consultation, 14 days sick leave and a median of 60 days of hospitalisation leave per annum (p.103). The contribution to health costs for outpatient care, hospitalisation, and medical insurance by the employer in the majority of 1000 collective agreements analysed in 1995 by the NTUC was also noted (NTUC Weekly, 21 July 1995). However, few collective agreements give medical cover for dependants.

More recently, in 1993 the National Productivity Board and Singapore Institute of Labour Studies surveyed 300 companies (of which only 30 per cent were locally owned) to determine the types of non-mandatory benefits provided for all ranges of staff. The results are shown in Table 5.7.

Table 5.7

Types of Non-Mandatory Benefits in Singaporean Companies, 1993 (N=300)

Type of Benefit	% of Companies
Health Care(1)	90
Insurance Benefit	86
Transport Benefit	73
Education Benefit	70
Festive Advance	56
Recreation Benefit	52
Attendance/Performance(2)	50
Loans	46
Clothing Benefit	45
Product Discounts	43
Funeral Benefit	42
Food Benefit	40
Club Membership	34
Retirement Benefit	33
Retrenchment Benefit	32
Suggestion Plan	29
Shift Allowance	26
Flexible Working Hours	18
Health Promotion	12
Legal Advice	12
Investment Benefit	8
Others	7
Scholarships for Dependents	5
Vol. Resignation Benefit	4
Child-care Facilities	2

Source: Adapted from NPB/SILS (1993) NPB–NILS Survey on Employee Benefits, Singapore, NPB/SILS, Figure 2.5, p.21

Note: (1) Comprising medical benefit, dental benefit and leave for long term illness (2) Good Attendance/Performance/Productivity Incentive

The table shows that health care, insurance and transport benefits were the most common benefits provided. Few companies offered child-care benefits or flexible working hours to support the increasing numbers of women in the workforce. The survey data also stated that only 28 per cent of firms were interested in flexible benefit programmes, that managers received higher levels of transport, business membership, loans and investment benefits, and that the range of benefits correlated with company size. Totally owned MNEs (as opposed to joint ventures) tended to give more generous club membership, education, health care and insurance benefits (NPB/SILS, 1993. The rest were on a similar scale to those of locally owned companies. By comparison, an SNEF survey of 473 companies in 1993 found more maternity leave being given to female executives for the birth of a third and fourth child, more executive paternity leave, company cars for three-quarters of CEOs, and mobile phones and club memberships for more than half the CEOs (Straits Times, 9 October 1993).

In summary, then, Singapore demonstrates a wide range of compensation systems ranging from the formality of large MNE subsidiaries to the informality of the family firm. The sophistication of the HRM varies enormously, and each MNE possibly brings with it some features of its corporate culture. Although it is relatively easy to make recommendations for reform, implementation depends on the skills and motivation of the organisation's management and unions to introduce change, the adaptability of the organisation, and the industrial relations climate, at the same time balancing these with the pressures of the tight labour market.

A Comment on the External Environment and Singaporean Compensation

Having provided an overview of the external environment and compensation systems in Singapore, this section assesses the implications for compensation systems design for an MNE establishing a subsidiary there.

Historical Influences on Singaporean Compensation

As Magota and Suzuki (1988:1) note, 'wage systems are generally legacies of past decisions taken over the years'. Prior to the advent of Singapore as a separate nation, some general principles of compensation system design had already been well entrenched in the employment relationship. The first was the payment for length of service as reflected in annual increments. Automatic annual increments were originally only paid to the British Colonial Government staff, whereas daily-rated employees were paid at a fixed rate that was increased after a stipulated length of service (Sharma & Chew, 1992). After the 1939–45 war, the unions targeted the statutory boards and major trading and importing houses, which conceded annual fixed salary increments. One of the first awards of the new Industrial Arbitration Court (IAC) in 1960 gave fixed annual increments to daily-rated employees in the Straits Times Group, which set the pattern subsequently for compensation settlements (p.18). That feature survives to this day in collective agreement structures of non-executive staff, particularly in the public sector, and was only being challenged in the mid-1980s.

The second principle that appears to have historical roots is the concept of the 13th month or Annual Wage Supplement (AWS). This was originally an end-of-year bonus and is institutionalised in Asian countries such as Japan (Whitehill, 1991). In Singapore, ad hoc bonuses became formalised by the Employment Act 1968, which restricted individual or collective agreements to pay bonuses to a maximum of one month's wages. There were further restrictions in 1975 which constrained the amount depending on when a company was established or when a collective agreement was signed. While the AWS is usually one month's pay and can be theoretically adjusted downwards in a recession, it would be a brave employer who did not pay it. As an NTUC official interviewed by the author mentioned, the majority of employers pay one month, but supplement this with other bonuses. The unions have resisted changes to the AWS as it is a form of savings for the employee for annual tax liability and children's school fees.

The question for the MNE establishing in Singapore now would be whether the seniority issue and AWS could be ignored for staff covered by a collective agreement. The NWC still referred to 'small service increments' and one month's AWS in its recommendations for reform in 1986. While there is more freedom for compensation for managers and executives outside the scope of union coverage and the

Employment Act, room to manoeuvre at lower levels is considerably less, notwithstanding the government's expectation that NWC guidelines should be applied equitably to all groups of staff including managerial, professional and executive staff.

Legislation and MNE Compensation

The implications of the legislation for compensation is the restriction of choice for the MNE. If the MNE is non-unionised, it could theoretically design any system it liked provided the conditions for those paid below S$1,500 (later S$1600) per month complied with the Employment Act and other legislation. There are no minimum pay or equal pay laws to be considered. A single compensation system would be possible. If the MNE is of a certain size, it will attract the attention of Singaporean unions and, if enough employee support and membership can be obtained from supervisors and below, is likely to have to negotiate a collective agreement. The implication for a large MNE subsidiary is that it will then have at least two different compensation systems (or three, if one counts a global top executive expatriate system as well). While the government does not determine the compensation systems at micro level, its legislation creates over-arching rules for some aspects of the compensation package. Furthermore, through its involvement on the NWC and acceptance of its recommendations, it has influenced the general level of wages in Singapore as part of a clear strategy to make labour expensive and encourage use of higher technology and productivity. Its stance on issues such as social welfare, self-sufficiency and privatisation of services (e.g. health) arguably affects the range of benefits demanded by employees.

The Economy and MNE Compensation

The link between the economy and the compensation system in Singapore emerges from the state of the demand and supply of labour. Wage levels were deliberately increased in 1979–81, but this policy backfired in 1985 and 1986 when the US slowdown, falling commodity prices and high wages among other factors caused growth rates to slump suddenly. This, in turn, caused the NWC to advocate flexible compensation systems with the backing of the government. An Economic Committee argued for wage restraint, a move away from fixed compensation structures, the shrinking of length of service increments and more variable pay. It is obvious that the

MNE cannot be insulated from the host nation labour market which is, in turn, affected by the policy and strength of the host country's economy. While the economy does not directly determine the type of compensation system used by the MNE subsidiary, it will inevitably affect the level of pay, bonuses and range of employee benefits, and perhaps influence the structure indirectly through measures taken to control various stages of economic growth.

The Unions and MNE Compensation

We noted that legislation on unions in Singapore and their relationship with the government ensures that union influence is restricted to certain levels of employee, collective bargaining, providing advocacy for members, provision of services, and participation in tripartite bodies such as the NWC. The NTUC and individual unions are unlikely to push a policy that is unpopular with the government. Singapore prides itself on industrial peace, which makes it attractive to MNEs. The MNE in Singapore has the choice of recognising unions or not, and the decision may be influenced by the global policy of the MNE. With union recognition and a collective agreement, the MNE will have to formalise its conditions of service, perhaps pay more than it would have done before, and have compensation rates publicly available if ratified by the IAC. The MNE has the option of forming a house union to obtain a better fit between pay and productivity. Union recognition is either given willingly by the MNE or via a secret ballot, but without a union presence, individual contracts would prevail.

The Industrial Relations System and MNE Compensation

The Singaporean industrial relations system is very centralised and arguably unitarist and paternalistic. The interesting question here is what impact this environment might have on the quality of employee relations of a newly established MNE subsidiary. One could assume that aggressive action by a union towards a new employer would be unlikely to get the support of the NTUC or Ministry of Labour (Manpower). At the same time, the MNE would be obliged to conform with the legislation and norms of Singaporean industrial practice, while perhaps taking the initiative in using imported practices that are part of the corporate MNE culture.

The National Wages Council and MNE Compensation

We have already discussed the phases of compensation strategy in Singapore and the role of the NWC. The implication here for the MNE in Singapore is that apart from its top executives and expatriates, it would be expected to follow the recommendations of the NWC. With the recommendations now in qualitative form, rises in the variable portion of the compensation package are now more open to negotiation. From its inception, the NWC has been involved in attempting to change the nature of compensation systems in Singapore, as well as commenting on training, retirement ages and employee benefits. One issue is therefore the extent to which the business plan of the MNE can be achieved by the full acceptance of the NWC guidelines.

National Culture and MNE Compensation

With regard to national cultural influences, the strength of the external environmental factors already discussed perhaps gives the impression that the influence of national culture in Singapore has a more modest influence on compensation design. One difficulty in translating Hofstede's (1980) national cultural dimensions' rankings into organisational practice in Singapore is that most local companies are small or medium-sized. The compensation systems are therefore likely to be informal and dominated by the owners, who may be influenced by cultural factors. The unionised firms and the public sector are obviously more formalised and managed in a more impersonal way. The other difficulty is that while the country is multi-racial, most of the research presumes that the Chinese Confucianism dominates the values. However, the values are changing, and preference is shown for employment in MNEs. It might then be argued that differences in value systems between Western countries and Singapore may not be great, and that they might narrow even more with the presence of MNEs, industrialisation and affluence. In that case, Western principles of compensation could more easily transferable.

Hodgetts and Luthans (1993b:43) postulate that where Power Distance is high, MNEs should 'pursue a hierarchical compensation structure for local managers'. The pay and benefits should vary accordingly, and there should be a large gap between the lowest and highest paid in the organisation. Decision making would usually be autocratic and paternalistic. One might argue that salary scales and ranges are common in Singapore, and that job evaluation (JE) is now being encouraged to ensure that compensation should reflect the value of the job, as recommended by the NWC. The major organisations have adopted US JE methods, interestingly without any major modification of the factors to suit the local culture. Anecdotal evidence by Wong Kwei Chong (1991:85) suggests that JE is performed in some local firms. The gap between highest and lowest paid is high in some organisations in Singapore, as Singaporean executives are reputed to be the third-highest paid in the world[6] (Straits Times, 17 June 1995 [quoting Intersect Japan–Asia, June 1995 Issue]). Civil servant and political salaries are also very high by Australian standards. A Singaporean Government Minister's gross salary from 1 July 1996 ranged from S$440,400 to S$714,000 per annum (Straits Times, 1 June 1996). The median salary for a bank teller was S$9600 per annum in 1996 (Research & Statistics Department, 1996:38).

According to Hodgetts and Luthans (1993b), with a low Individualism culture like that of Singapore, MNEs should rely on group compensation plans, as individual managers would not like to be singled out for their success. The compensation should be 'designed to help the group, not the individual manager succeed' (p.44). Rigorous data on the main types of incentives in Singapore are not available, but as mentioned before, the NPB/SIPM Survey (1991) of 408 companies found that over three-quarters of the respondents used incentives, with individual performance-based incentive pay being the most widely used for managers, supervisors and rank and file employees. Other managerial incentives were profit-sharing (37 per cent), productivity incentives (20 per cent), stock options (11 per cent), with small group incentives being only 8 per cent (p.29). A similar general pattern existed for supervisors and rank and file, save that fewer stock options and slightly more small group incentives were offered. While the NWC recommended that reformed compensation should be based on the profit-sharing or variable productivity payment models, it also recommended individual performance appraisal.

[6] Generalising about executive salary levels across the world is obviously fraught with problems as local and MNE salaries may not be distinguished, and data may not show size of the company or nature of the job or industry. A study of CEO pay in US-based subsidiaries in 12 countries with sales of US$100 million by Lutyens (1997) of Watson Wyatt Worldwide showed the Singaporean CEO total compensation in 7th place out of the 12 nations and the Australian in 9th (p.47). There was a gap of about US$50,000 per annum. However, once the total compensation was adjusted for purchasing power parity exchange rates, the Australian CEOs moved up to 5th place out of 12, and the Singaporean CEOs down to 9th (p.48). It has to be noted, of course, that the average compensation of the whole workforce is considerably higher in Australia than in Singapore, and so the gap between minimum and maximum is much higher in Singapore.

If Hofstede's (1980) moderately low Masculinity value is an accurate reflection of Singaporean society, then 'social benefits, quality of life, and equity' are advocated for compensation strategy (Hodgetts and Luthans, 1993b:44). One could argue that equity is demonstrated in many collective agreements in Singapore in pay scales that do not discriminate on the basis of gender, despite the absence of equal pay legislation. It is also usual for business unit general bonuses to be based on a common number of months' salary for all employees across the unit. Against this, there is not much evidence on quality of worklife initiatives or that, apart from the Civil Service, employee benefits are particularly 'family-friendly', which might be expected with Singapore's moderately Masculine cultural dimension. In 1997, the Singaporean National Employers' Federation and the National Trade Union Council introduced Pro-Family Company Awards to encourage family friendly policies (Koh, 1998).

On Hofstede's dimensions for culture, Singapore was ranked low on Uncertainty Avoidance. Hodgetts and Luthans (1993b) considered unstructured, decentralised and flexible compensation strategies were appropriate for such a rating, where local managers' salaries were linked to performance so that they took some of the risk of the MNE's success. To an extent this happening in Singapore in that the NWC has only given qualitative guidelines to employers since 1988 and has advocated that total wage increases should be based on company performance. The questions here are whether the Uncertainty Avoidance dimension is an accurate reflection of Singaporean culture, and whether organisational effectiveness in Singapore will now increase because of stronger ties between performance and pay. The increased flexibility of the compensation system was encouraged for mainly economic reasons, and the spread of pay-for-performance across the world suggests that this is perhaps more to do with greater competition than with cultural suitability.

Finally, the medium Singaporean ranking on Confucian Dynamism would suggest that Singaporean actions are often based on moderate support of the values of persistence, hierarchical status relationships, thrift, and a sense of shame (Murphy, 1992). We have already referred to the grading and hierarchy and the wide range of incomes in Singapore. The persistence dimension can perhaps be queried by the concern about 'job hopping' in the tight labour market, but the thrift is manifested in the state's attitude towards self-sufficiency and absence of safety nets. This has implications for the type of employee benefits expected of employers, particularly health benefits. Because of the costs of medical provision, there was discussion in 1997 to make employees pay for all their own medical expenses, the offsetting factor being that the employer would make a contribution into a health fund at a set rate.

Summing up, assessing the impact of national culture on compensation in Singapore is problematical. Singapore is not a pure Confucian society in any case. A normative view might be taken (echoing Hodgetts and Luthans, 1993b) in proposing certain systems to fit the culture. However, the Singapore culture appears rather to be reflected in its consensus in relationships, and respect for authority. The emphasis on education and its resulting status may result in more payment for skills, and an increased emphasis on Individualism, which commentators believe would not be diminished unless reward systems were applied to overcome it. 'There is no trend in pay for skill yet, but there is talk in big MNEs,' said an interviewed Hay Consultants executive. The government is attracted to Japanese methods of management, but the range of compensation methods in the country including piecework, US JE systems, various incentive schemes and pay for length of service derived from the British Civil Service, lead one to suggest that culture is a smaller influence on compensation than other external factors in MNE subsidiaries in Singapore. An alternative explanatory proposition is that large employers in Singapore have become more 'Westernised'. Another might be that culture might be reflected in the actions of the institutions of the industrial relations system which influence pay design, or in the individual employee who desires, and is more motivated by, a particular type of compensation system. It could also be that culture is significant in the *process* of the design of the system as well as in the final design itself.

Concluding Summary

This chapter has outlined the key economic, political, legal and cultural features in Singapore that are relevant in compensation design. It has described the industrial institutions and actors in some detail, showing their impact on compensation systems. In particular, we have noted how employment law and union recognition may result in more than one pay system in an MNE, and how the NWC recommendations have influenced general trends in compensation design, particularly since the mid-1980s. The chapter concluded with a discussion on what impact the Singaporean external environment might have on the compensation systems of an MNE setting up a subsidiary in Singapore.

CHAPTER SIX

AUSTRALIAN COMPENSATION IN ITS LOCAL CONTEXT

Physical Geography and Brief History

The continent of Australia has a land area of 7,682,300 square kilometres which is approximately the same as continental United States excluding Alaska. The latitude (north to south) distance between its extremities is 3,680 kilometres and longitude (east to west), about 4,000 kilometres (ABS, 1993b). Apart from Antarctica, Australia is the driest of all the continents, and can be divided into the Western Plateau, the Central Lowlands and the Eastern Highlands. The island continent experiences a wide range of climates, varying from the tropical north to the arid interior and the temperate south. The estimated resident population of 18.0 million in 1995 (ABS, 1997a:74) was mainly concentrated in two coastal regions — the south–west of Western Australia, and a larger coastal band stretching from South Australia (SA) through Victoria and New South Wales (NSW) and on, through Queensland. More than 70 per cent of the population live in the combined state and territory capitals and six other cities of 100,000 persons or more (ABS, 1996a:78). All capital cities except one (Canberra) are situated on the coast.

The history of the nation can be divided into two main phases — the arrival of the native Aborigines perhaps more than 40,000 years ago, and the arrival and possession of the Australian east coast by the Englishman Captain James Cook in 1770. The country therefore has two main cultures — one Aboriginal and the other European (Clark, 1982). Estimates of the number of Aborigines at the time of the European landings vary from 250,000 to over one million (ABS, 1985). By 1996, the national Census stated that the total of the Indigenous population was 352,970 (ABS, 1997c). From the viewpoint of this thesis, the Aboriginal presence and culture are considered to have played no part in influencing the design of modern compensation systems in Australia.

There is uncertainty about which Europeans first reached Australia, but the British navigator Captain James Cook eventually took possession of the east coast on returning from New Zealand in 1770. However, it was not until 1787 that the British Government accepted a recommendation to establish a penal colony on the continent to relocate prisoners from the overcrowded British jails. The First Fleet of 11 ships carrying about 750 convicts plus officers, marines, ships' crew and children as well as the governor and nine staff, arrived in 1788 (Shaw, 1974). More fleets and prisoners arrived in 1790 and 1791, and convict-worked farms started in 1792. Grants of land were given to officers and soldiers and hard-working convicts.

More than 150,000 British convicts had been deported to eastern Australia and Tasmania by 1852 when transportation ceased (World Book [23], 1980). With labour becoming short, the British Government subsidised migration to Australia, as a result of which the population of NSW and Tasmania reached more than 335,000 by 1851 (Disher, 1987). Self-government was eventually given by the British to all colonies (now states), and legislatures were set up, one task of which was to sort out land titles. From 1860 to 1890, subsidised migration expanded the population to three million, a move welcomed by employers, but opposed by workers, who feared a deterioration of wages. By 1890, about 133,000 employees were employed in 9,000 factories in Australia (usually in appalling and uncontrolled conditions), with two thirds of the workers being in Victoria (Clark, 1982).

In the late 1880s, Australia was 'a disjointed collection of loosely linked economies and societies fluctuating independently' with much inter-colonial rivalry (Buxton, 1974:215). The majority of residents were Australian born and living in cities, with the community dividing itself into recognisable classes (Disher, 1987). But with the rise of national pride and the realisation that unification was necessary for independence, a convention was held in 1897–98 to draw up a constitution for Australia. This was approved by the Australian people by ballot in 1898–99 and by the British Government in 1900. On 1 January 1901, the six colonies became states in the new Commonwealth of Australia. The British monarch was retained as head of state and the first federal parliament met. Between 1910 and 1914, over 250,000 British immigrants came to Australia (Disher 1987), and from 1945 to 1973, over two million immigrants arrived, with two-fifths coming from Britain and the rest mainly from Europe. With the declining proportion of British entering the country, by 1979, Clark (1982:233) asserted that 'Anglo-Saxon Australia had been changed into Ethnic Australia'. US and Japanese foreign investment in mining, heavy industry and manufacturing overtook the contribution of the British. Japan (purchasing minerals, meat and wool) and the United States (buying meat) became the major trading partners. With unemployment and inflation high in 1973, immigration was cut back. Similar cuts were made in 1997.

At the time of writing, the British monarch (Queen Elizabeth) is the head of state and a Governor–General based in Canberra, the nation's capital, is her representative. While Australia has natural advantages of mineral resources, a stable democracy and a multicultural, tolerant society, the main concern for government is the steady decline in economic performance, the country's massive debt and low level of savings. The reduction of protective tariffs and intensive international competition has forced rethinking of compensation systems in the nation as part of the strategy for economic survival and reform. The country is going through a phase of questioning its own identity, and the future role of the British monarch and the setting up of a republic is now the subject of extensive public debate, with mainstream media polls showing a majority of people in favour of a republic. A model for a republic resulting from a convention in February 1998 is to be put to a national referendum in late 1999.

Demography

Past estimates of Australia's population for selected years are shown in Table 6.1. Since 1967, following a change in the Australian Constitution to recognise Aborigines as Australian citizens, Aborigines have been included in official population numbers. Immigration policies and economic trends in Australia and overseas have all affected population levels. The most significant has been the convict transportation, substantial Chinese immigration in the 1850s, the development of the Queensland sugar industry in the late nineteenth century, the migration to Australia after both world wars, and migration from New Zealand (ABS, 1994a). As well as being highly urbanised, the Australian population is also multicultural. About 23 per cent of Australians in 1995 had been born overseas (ABS, 1997a:94). Of this 23 per cent, 44 per cent had been born in Europe (p.4). The median age of the population in 1996

Table 6.1
Australian Population for Selected Years, 1828–1995

Year	Population
1828(a)	36,598
1841(a)	130,856
1881	2,250,194
1901	3,773,801
1911	4,455,005
1921	5,435,734
1933	6,629,839
1947	7,579,358
1961	10,508,186
1971	13,067,265
1981	14,923,260
1993(b)	17,661,500
1995(b)	18, 054,000

Source: ABS (1988) Year Book Australia 1988, p.256; Jing Shu, Siew Ean Khoo, Struik, A.and McKenzie, F., (1994) Australia's Population Trends and Prospects 1993, p.1; Australian Bureau of Statistics (1997a) 1997 Yearbook Australia, ABS, Canberra, p.74.
Notes:(a) NSW figures (b) Estimate as at end of June. All other figures are as at 31 December.

was 34 years (ABS, 1997a) and is likely to rise to 40 years by 2021 (Jing et al., 1994). The sex ratio within the population in 1996 was 50.5 per cent females and 49.5 per cent males (ABS, 1997a). The median age for males on marrying was 23.4 years in 1971 and 27.3 in 1995 (ABS, 1997a:83). For females, the figures were 21.1 and 25.3 years respectively. Life expectancy at birth for Australian males was 75.4 years and 81.1 years for females in 1995 (ABS, 1997a:88). The life expectancy of Aborigines is considerably shorter (57 years for males and 64 years for females).

The Economy

Despite its natural advantages, Australia in 1994 had just come out of a major recession, had unemployment reaching 11 per cent, weak business investment, a current account deficit of over 4 per cent of GDP and foreign debt of more than 40 per cent of GDP (EPAC, 1993). Rather than being a temporary phenomenon, it could be argued that compared with other industrial countries, the economy has 'been performing relatively badly for a very long time', with deterioration traceable back to the nineteenth century (Caves & Krause, 1984:4).

The nineteenth-century economy was centred around gold, wool and meat (Helliwell, 1984), and manufacturing 'was negligible' (Turnbull, 1983:90). By the 1890s, sheep, the mines and potential mineral discoveries 'were still the only substantial sources of Australia's wealth' (Disher, 1987:121). By 1911, Australia had the beginnings of steel and chemical industries; the latter industry developed explosives for mining and fertilisers for the land (Turnbull, 1983). The early 1920s were a time of comparative prosperity until world wheat and wool prices dropped in 1927, and with other countries undercutting on price, depression followed (Disher, 1987).

The 1939–45 war stimulated secondary industry in Australia, and after its conclusion, MNEs began to invest in car production, food processing and large scale oil refining (Turnbull, 1983). Even by 1979, however, mining and agriculture still accounted for 71 per cent of total Australian exports (ABS, 1980a). Unemployment in the post-war years 1949–69 averaged 1.3 per cent (Department of Labour, 1975), but by 1975, unemployment had risen to 5 per cent and inflation to 15 per cent (Disher, 1987). Fundamental deterioration in the economy continued with a GDP negative growth rate of –2.0 per cent in 1983, inflation at 11.5 per cent and unemployment at over 10 per cent (Caves & Krause, 1984:3).

The main parameters of the economy at the cut-off date of 1995 were as follows:

- GDP in 1995–96 was A$429,629 million (at average 1989–90 prices) representing a growth of 4.5 per cent on 1994–95. There was negative GDP growth in 1982–83 and 1990–91.
- Household savings as a percentage of GPD fell from 9.8 per cent in 1974–75 to 1.6 per cent in 1995–96. General government saving had been negative since 1991–92.
- In 1995–96, the value of merchandise imports exceeded exports by A$1,820 million. In 1994–95, they exceeded exports by A$7,568 million. Main commodity exports were coal, gold, wheat and iron ore. Main imports were motor vehicles, computer and telecommunications equipment, aircraft and associated equipment.
- In 1995–96, inflation was 3.1 per cent; average earnings had risen by 4.2 per cent; the unemployment rate was 8.5 per cent (never having been below 6 per cent since 1989 and exceeding 11 per cent in 1992–93); the current account balance was –$A20, 298 million or –4.1 per cent of GDP; net foreign debt was 39 per cent of GDP compared with around 7 per cent in the late 1970s; official reserve assets were $A19, 059 million compared with A$24, 047 million in 1991.

(Source:ABS,1997a; AGPS,1996)

While a number of recent initiatives for economic reform have occurred (deregulation of financial markets and currency, reduction in tariffs, reform of some service industries, and tax and labour market changes), there are still major obstacles to overcome to ensure 'longer-term renewal and restructuring' (EPAC, 1993:3).

MNEs in Australia

The Australian Bureau of Statistics (ABS) does not publish data on the number of foreign owned MNEs that operate in Australia, but staff at the federal Department of Corporate Affairs informed the author that, according to their records, there were 2,829 foreign owned companies registered in Australia as at 16 December 1994. However, this figure did not reflect locally registered firms which are controlled from overseas. The ABS does provide data on foreign investment in Australia, but warns about the quality of the information. At 30 June 1995, it was estimated that non-residents held 30 per cent of total equity on issue by Australian enterprise groups (ABS, 1997a:739). The Bureau of Industry Economics (1993:66) estimated that foreign direct investment amounted to about 22 per cent of Australian GDP, and that MNEs were responsible for 25 per cent of manufacturing employment in Australia.

As a British colony, foreign investment in the first 150 years of Australia was, of course, from Britain. In the period immediately after the 1939–45 war, investment from the United States and Canada occurred, so that by the 1960s, foreign capital dominated some industries, especially automobile manufacturing and some parts of food processing (Turnbull, 1983). Overseas money and MNEs were the main impetus to the development of the mining industry (Krause, 1984).

The major Australian Workplace Industrial Relations Survey (AWIRS) of 1995 found that 28 per cent of the 1,363 surveyed workplaces with 20 or more employees in the private sector were partly or predominantly foreign owned (Morehead, Steele, Alexander, Stephen & Duffin, 1997:66). The degree of overseas ownership was correlated with size, and 33 per cent of workplaces with more than 500 employees were predominantly foreign owned. About 18 per cent of the 1363 workplaces sampled had their head offices located outside Australia.

The System of Government

Australia is a federation of six states and two territories. It has three levels of government: federal, state and local. The federal government's powers cover foreign affairs, defence, immigration, trade and tariffs, and inter-state issues; the state governments retain control of land legislation, education, police and health. Only the federal and state governments can pass employment legislation to set up industrial tribunals that can influence compensation systems. The federal government cannot directly legislate on the terms and conditions of the nation's employees, although it has recently legislated for the provision of superannuation (pensions) for employees (with certain exceptions), and imposed taxes on employee benefits, which has affected packaging of conditions. By contrast, state governments have the power to set up their own industrial tribunals and to legislate for conditions such as working hours, long service leave and public holidays for employees in their states. Decisions of the High Court[1] over time have delineated the dividing line between federal and state legislative powers (Dabschek & Niland, 1981).

Most of the federal government's powers are incorporated in Section 51 of the Constitution. The remaining powers are with the states which regulate local government. The federal and state systems of government have borrowed aspects of the American and British models. All federal and state parliaments (except Queensland) are bicameral. As mentioned previously, the English Queen is the head of state and is represented at federal level by a Governor–General and by State Governors at state levels. In 1997, there were 224 federal (Commonwealth) members of Parliament and 618 State and Territory members (ABS, 1997). The two territories have representatives in both the lower and upper houses of the federal Parliament (the House of Representatives and the Senate respectively).

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[1] A brief explanation of the Australian court system nomenclature may be helpful here. The highest federal court in Australia is the High Court, with powers vested in it by the Constitution, both original and appellate. It hears major cases such as disputes between states or interpretations of the Constitution or federal legislation and appeals from certain lower courts. The next level is the Federal Court of Australia (created in 1976 as an original and appellate court) which has general and industrial divisions, and deals with federal cases such writs or injunctions against an officer of the Commonwealth of Australia, or a federal trade union. Each State and Territory then has its own separate Supreme Court for handling matters under State and Territory statutes and certain federal matters. Most criminal matters whether arising under Commonwealth (federal), State or Territory law, will be dealt with at this level.

Both federal and state governments operate on a Westminster system with two main political parties and several smaller parties. The leader of the party or coalition of parties that has a majority in Parliament is invited to become the Commonwealth Prime Minister or, at state level, the Premier. The major parties at federal and state levels are the Australian Labor Party (ALP), the Liberal[2] Party and the National Party. The two latter conservative parties usually work as a coalition, especially at federal level. They are currently in power, but minor parties hold the majority in the Senate (the upper house). The ALP was created by the trade unions in the 1880s and works closely with the unions when in power. The significance of the political parties in Australia is that they have offered different policies on industrial relations, which in turn have set the context for compensation systems.

According to Deery, Plowman and Walsh, (1997), governments in Australia have intervened in the labour market since convict times. By the beginning of the twentieth century, wages boards and conciliation and arbitration machinery were being set up in states as a means of averting industrial relations disputes (Dabscheck & Niland, 1981). This pattern was followed at the federal level when the new Constitution gave industrial relations powers to the federal Parliament, which then passed the 1904 Conciliation and Arbitration Act to set up the Commonwealth Court of Conciliation and Arbitration (now the Australian Industrial Relations Commission) (Dabscheck & Niland, 1981). The federal Commission, under section 51 (xxxv) of the Constitution, can legally only be involved in 'the prevention and settlement of industrial disputes extending beyond the limits of any one state'.

Like the state governments, the federal government acts as legislator, major employer, and policy-maker on industrial relations and compensation. It is also a source of funding for its various industrial tribunals, and has the right to intervene in proceedings of the Australian Industrial Relations Commission, including National Wage Cases. The other ways in which the federal and state governments can affect compensation systems are through the management of the economy and social equality, and the handling of industries which governments directly control such as public transport.

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[2] In Australia, the Liberal Party is a conservative, right-wing party of similar philosophies to those of the British Conservative Party. The term 'liberal, therefore differs here from the usual American (or UK) political usage.

The Labour Force

The Australian labour force in 1995–96 was 9,066,400, but of these, only 8,299,700 were employed (ABS, 1997a). The male participation rate (those aged 15 and over) was 73.0 per cent compared with 53.8 per cent for females. While the male rate has declined from 82.1 per cent in 1973, the female trend has been upwards from 41.4 per cent in the same year (ABS, 1994b:15). One major change in the labour force has been the increasing participation of married women (Norris & Wooden, 1996). The most significant growth in demand for labour has been in the service sector. Services now account for 65.7 per cent of the workforce, compared with 47.8 per cent in 1970 (Norris & Wooden, 1996:6). Manufacturing, by contrast, declined from 24.5 per cent in 1970 to 13.6 per cent in 1995. Despite its contribution to the economy, agriculture, together with fishing and forestry, only employs 6.0 per cent of total labour (p.6).

In terms of the educational level of the population aged 15–64, the percentage of people with post-school qualifications rose from 37 to 42 per cent from 1986 to 1996. However, 54 per cent in full-time work in 1996 had these qualifications (ABS, 1997b:84–87). Just under 12 per cent of the workforce had a bachelor's or post-graduate qualification as at May, 1995 (ABS, 1997a:251). The most dramatic data perhaps are the number of school children with 12 years of full-time education: the level rose from 29 per cent in 1970 to 72 per cent in 1995 (EPAC, 1996:x). In terms of occupation, an average of about 11 per cent of the employed labour force in 1995–96 were in managerial or administrative positions, compared with 20 per cent in professional or para-professional jobs, 15 per cent in trades, 16 per cent in clerical roles, 16 per cent in sales/personal services, and 22 per cent in operating, driving or labouring work (ABS 1997a:109). In the last 25 years, the proportion of managerial and professional employees in the population has increased, clerical staff have remained the same, and the percentage of trades and labouring personnel declined. The percentage of the female workforce in senior positions has also increased, but female employees are still mainly concentrated in the clerical and sales areas (ABS, 1997a).

Unevenness in workforce participation between the sexes is also shown in the degree of part-time working. In 1995–96, only 11 per cent of employed males were in part-time positions, compared with 42 per cent of employed females (ABS, 1997a). The incidence of part-time work is greatest among married women. Part-time workers are defined as those working less than 35 hours per week. The growth in this type of employment since the mid-1960s has been seen as 'one of the more striking features' of the labour market (Sadler & Aungles, 1990:286). There are statistical problems in defining casual and part–time staff, but it is estimated that the proportion of the workforce in part-time jobs in 1969 was 11 per cent, rising to 24.3 per cent by 1994 (Norris & Wooden, 1995:8). Accompanying the growth of part-time work has been a rise in casual employment. Norris and Wooden (1995:8) report that 23.7 per cent of the workforce were in casual employment in 1994, compared with 17.8 per cent in 1984.

Like Singapore, Australia has strict regulations regarding temporary foreign labour entering the country to work, but no levy is imposed on employers for employing foreign workers. Permanent immigration quotas are set annually, together with the criteria for entry. Temporary labour quotas are set each quarter for various categories of short and long-term stays by the Minister of Immigration and Multicultural Affairs. There is community sensitivity about temporary and permanent immigrants because of the high levels of unemployment in Australia. Unemployment rates for selected years for 1973–95 are shown in Table 6.2.

Table 6.2
Unemployment Rates, Australia, Selected Years, 1973–95

Year	%
1973	1.8
1975	4.7
1977	5.5
1979	6.2
1981	5.6
1983	9.9
1985	8.2
1987	8.0
1989	6.1
1991	9.5
1993	10.8
1995	8.5

Source: ABS (1977) Yearbook No.61, 1975 and 1976, Canberra, ABS; ABS(1982) Year Book 1982, Canberra, ABS; ABS (1994b) Labour Statistics, 1993, Canberra, ABS; AGPS (1997) Budget Strategy and Outlook 1997-98, Canberra, AGPS.

What the composite unemployment statistics conceal for 1995 were the half a million employees who wanted to work more hours (ABS,1997a:114), and the one-third of unemployed people who had been without work for more than 12 months (EPAC, 1996:x). Unlike Singapore, benefits are payable to unemployed adults under certain conditions which are becoming more stringent, but remain relatively generous compared to the US system.

Average weekly earnings in May 1991 in Australia (combined award, over-award and overtime pay) were A$484.30[3] per week (ABS, 1997a:123)[3]. By May 1996, these had increased to A$564.40 per week, a 16.5 per cent increase. Like Singapore, the average masks the lower average earnings of women. In May 1991, average weekly earnings for women were A$378.90 compared with A$569.90 for men. By May 1996, male earnings had increased to A$671.50 per week and female earnings to A$441.10 per week (ABS, 1997a:123). A similar disparity of earnings between the sexes applies in all major occupational groups in Australia. For example, the average weekly total earnings for male managers and administrators were A$978.70 in May 1995, compared with A$749.30 for females (ABS, 1997a:125). Since 1985, there has been a significant increase in the inequality of average earnings in full-time positions. One factor in this has been the greater rate of growth in executive salaries over average weekly earnings since 1987 (EPAC, 1996:99). Using 1997 data from six management consultancies, Ferguson and Laurence (1997:37) quote median salaries for a managing director (MD)[4] in Property as $A400,000 – $450,000, an MD in industrial manufacturing as $A223,000 – $250,000, and an MD in Communications as A$ 670,000 – $900,000 per annum. A 1997 survey by the Australian Institute of Management of 600 businesses also concluded that senior management percentage salary increases continued to exceed those for the rest of the workforce (AIM, 1997:20).

Hours of work in Australia are determined by a combination of federal awards, state awards and state (but not federal) legislation, supplemented by workplace agreements. Average weekly hours worked in Australia have gradually declined since the 1900s.

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[3] On 1 May 1991, A$1=US$0.7760. On 1 May 1995,A$1=US$0.7290. On 1 May 1996 A$1=US$0.7828.

[4] Managing Director in Australia is the equivalent of a company President in the USA.

In 1914, employees were working about 49 hours per week (ABS, 1988). In 1995–96, average weekly hours for all employees were 35.9. However, males in all industries averaged 40.8, with a range from 37.7 in electricity, gas and water supply to 48.1 hours in agriculture and fishing. Female hours averaged 29.5 per week (ABS, 1997a:135). Since 1985, there has been a marked increase in the number of employees working 49 hours per week or more. An analysis of the overtime data suggests that the majority of these hours are unpaid (Norris & Wooden, 1995).

In developing the skills of the present and future workforce, the state and territory governments have the main responsibility for funding primary and secondary schools. The technical and further education sector and 36 public universities are funded by the federal government, the latter according to agreed student profiles. While compensation levels may be correlated to an extent with a university education, it is vocational and technical qualifications which have become more closely integrated with compensation systems over the last ten years in Australia. Vocational and work-based training has now become an important part of labour market reform as skill levels are recognised as being crucial to industrial competitiveness.

In the late 1980s, attempts were made through the Australian Industrial Relations Commission (AIRC) decisions and legislation to reform out-dated work design, and rigid occupational and pay classifications that did not encourage skill formation (Tovey, 1997). The AIRC decided that increases in award wages and salaries would be approved only if the employer and the union established 'skill-related career paths', and linked an educational attainment to a wage group/classification — in short, a payment for skill framework for bargainable employees (Deery & Plowman, 1991:418). This spawned national standards for competencies from which industry training programmes are being developed (Tovey, 1997). However, it appears that these initiatives are not being fully resourced by employers. A government survey of training expenditure in 1996 showed companies only spent A$185 per employee in 1996 compared with A$191 in 1993, and that managers and professionals attracted most of the training hours (ABS, Catalogue 6353.0).

The National Culture of Australia

The controversial Australian historian, Manning Clark (1982:8), noted some years ago: 'So far there have been two cultures in Australia — one Aboriginal and the other European'. For the purposes of this project, only the European will be referred to, initially in general terms and then as represented by the cultural dimensions of Hofstede (1980) and Trompenaars (1994).

Shaw (1962:291) saw Australia in the 1960s as 'the product of the nineteenth and twentieth centuries'. Its youth meant it had no or few traditions, no aristocracy or 'wealthy leisured ruling class'. Power was originally vested in British officials, but as there was no inherited wealth, there was 'no landed gentry' (p.292). This led to a society that lacked special privileges and emphasised equality. The desire to own one's home and the general high standard of living had 'always been a moderating influence countering doctrinaire ideas of socialism' (p.303). There was acceptance of a capitalist system with a strong government intervention to protect the underprivileged. Turnbull (1983:30) reminds us that European settlement in Australia occurred before industrialisation had really taken off in England, so the early culture of Australia reflected that of Georgian England — 'a certain hardness, a sardonic attitude', and 'a rebelliousness which marked all classes in the early years'. So close were the ties with Britain towards the end of the 1800s, that rarely did Australians think of developing a culture distinct from that of the original British and Irish (Clarke, 1992).

Since that time, the nature of immigration has changed the cultural landscape. The proportion of immigrants from the UK, Ireland, and other European countries has decreased and been replaced by Asians, particularly from Hong Kong and Vietnam. The rise of subcultures is shown in the changing pattern of religious affiliation since the first national census in 1911. The nation's predominantly Christian affiliation has declined because of immigration patterns. In the first census of 1911, 96 per cent of the population reported their religion as Christian. This had dropped to 86 per cent by 1933 and 74 per cent by 1991 (ABS, 1994a). In the period 1981–91, the percentage of Catholics exceeded Anglicans[5] for the first time and became the biggest religious group (27.3 per cent). Anglicans and Catholics together accounted for 51 per cent of all religious affiliation. Just under 3 per cent of the nation follow non-Christian religions. In the 1991 census, about a quarter of the population did not state their religion or did not have one. Although growing from a small initial base, Buddhism and Islam were two of the three fastest-growing religions from 1981–91, the other being Pentecostal (ABS, 1994a:Table 2). The growth of Catholicism and the non-Christian religions in the decade prior to 1991 was essentially due to the immigration policy.

Summing up the general features of Australian culture in the 1960s, Horne (1968) refers to its high social stability, tolerance, scepticism of authority, aggressive individualism, openness and directness of manner, strong materialism, mediocrity, love of sports, and an expectation that the government would cater for the needy. But Mackay (1993) believes current Australian society is now undergoing a cultural revolution. The roles of women, marriage and the family are being redefined, and a redistribution of income is causing a big 'new rich' class, a big 'new poor' class, a shrinking middle class (p.23), and an increasing interest in 'traditional values' (p.247). In the name of 'multiculturalism', Australians were 'redefining their cultural identity' while 'experiencing some pain and anxiety in the process' (p.23). Whether some of these trends will eventually affect compensation systems is an interesting question as caution is needed when drawing general conclusions on national culture. As Belbeck (1993:73) notes, 'a moment's reflection will reveal that Australia is neither egalitarian, nor an equal society'.

Hofstede and Bond's (1988) scores and ranking for Australia's national culture were provided in the previous chapter. In brief, Australia appeared moderately low in Power Distance, very high on Individualism, and moderately high on Masculinity and moderately weak on Uncertainty Avoidance. According to Hofstede (1991) in relation to compensation, such a value profile could be manifested in narrow salary ranges between the top and bottom of the organisation, a dislike of status symbols, a desire to be consulted, an emphasis on the management of individuals rather than groups, opportunities for jobs with 'recognition, advancement and challenge' (p.94),

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[5] The Anglican Church of Australia is similar to the US Episcopal Church.

the creation of the assertive, decisive and aggressive hero type (p.94), 'working hard only when needed', 'no more rules than is necessary', and 'motivation by achievement and esteem or belongingness' (p.125). On Hostede and Bond's (1988) value measure of Confucian Dynamism, it was noted in Chapter 5 that Australia's index was in 11th equal position with Germany (F.R.) out of 20 countries and regions, below Japan and the four Asian dragons. Australia's score was similar to those of Great Britain, New Zealand, Sweden and the United States.

Hofstede's findings can again be compared with the more recent research by Trompenaars (1994). Trompenaars found that 57 per cent of Australians conceived of a company as a 'system designed to perform functions and tasks in an efficient way' rather than as a group of people working together (p.19). The figure from Singaporeans was 38 per cent. Unlike Singapore, Australians had a stronger Universalism (rules) than Particularism (relationships) dimension, which Trompenaars believes makes the process of, say, a Hay job evaluation more culturally acceptable (p.46). Australia was also much more individualistic than Singapore. According to Trompenaars (1994), the application of pay-for-performance systems will be less popular in 'diffuse' cultures than in 'specific' ones, this dimension reflecting 'the degree to which we engage others in *specific* areas of life' or *diffusely* 'in multiple areas of our lives ... at the same time' (p.79). In this context, Australia appeared highly 'specific' and more amenable to directness, objectives, targets, confrontation, and a separation of private and business agendas (p. 99). Australia was also ranked highly on 'achieved' status rather 'ascribed', which Trompenaars concluded would make MBO and pay-for-performance more effective than in an ascribed culture where direct rewards from the manager would be more successful (p.116).

These recommendations can be compared with those of Hodgetts and Luthans (1993b), who agree that with low Power Distance cultures, there should be smaller gaps in compensation between the highest and lowest paid, together with the use of profit-sharing and gain-sharing. With a moderately weak Uncertainty Avoidance, compensation should be more closely linked to organisational performance. Similarly, the high Individualism ranking may suggest individual performance-based compensation, while a compensation strategy which rewards 'competitiveness, aggressiveness, and dominance' may be more appropriate for a moderately high

Masculinity culture (p.44). Future research will no doubt indicate whether domestic and international organisations possess the recommended compensation systems for the various cultural dimensions of the countries in which they operate and, if so, whether they are effective.

Work Values

The stereotype of the Australian employee of the 1960s was graphically described by Horne (1968:2) thus:

> Ordinary Australia is not a society of striving and emulation ... Life assumes meaning in the weekends and on holidays ... To some they [Australians] seem lazy. They are not really lazy, but they don't always take their jobs seriously. They work hard at their leisure.

On the same theme, Lansbury and Spillane (1983:21) interpreted Hofstede's (1980) results as denoting that Australians' attitude to work and leisure was based on 'self interest', and that they were prepared to allow management 'to exercise authority' in return for 'economic and job security'. Generally, surveys done in the 1970s have suggested that Australians had low expectations about fulfilment from work apart from the compensation (p.24). Hilmer (1985) attributed the work attitudes of the 1980s to the legacy of history and the 'conscript' mindset of the early convict workers. He hoped that this would be replaced by a 'volunteer' mindset. Australians are constantly reminded that other nations, such as Japan, work much harder than they do, and that the country cannot afford high levels of leisure (Fox & Lake, 1990).

In examining recent studies, Vecchio, Hearn and Southey (1992:141) found that compared with the Americans, Australians 'tend to have a more external locus of control [O'Brien and Kabanoff, 1981], to be less authoritarian [Ray, 1984], to have a less pronounced work ethic [Feather, 1974], and to be less extroverted [Shaughnessy et al., 1990]', but warn that these studies should only be taken as 'a general flavour' of the Australian culture (p.142). Indeed, in a more recent study of work commitment in Australia, Ticehurst (1992) used several research studies of US and Japanese employees, and then surveyed 2,712 Australians using the same survey instruments. He noted that organisational commitment appeared higher in Australia than in Japan, but not as high the United States. Furthermore, Australian employees were prepared to exert more effort to help their organisations be successful than was evident for the United States and Japan. Unfortunately, there is little empirical data on the level or progression of the Australian work ethic.

Employment Law in Australia

According to Creighton and Stewart (1994:22), Australian labour law performs the three functions of, first, rationalising the individual employment contract; secondly, regulating the 'relations between organised labour and employers and/or the state'; and thirdly, moderating the operation of the labour market 'in certain circumstances'. In Australia, generally speaking, the conditions of service of employees have traditionally been established in two ways. Employees who are eligible to be represented by a union registered under federal or state legislation have had their compensation determined by federal or state industrial tribunals in the form of legally enforceable industry, occupation, single or multi-employer 'awards,' or single-business certified agreements. These awards and agreements cover about 80 per cent of employees (Creighton & Stewart, 1994). Those who are not covered by unions and/or awards (about 20 per cent) (usually middle and senior management in private industry) have had their conditions set in individual contracts independently of the tribunals. Space limits a discussion of each state's tribunals and legislation, so only the federal system will be discussed. The 1995 Australian Workplace Industrial Relations Survey (Morehead et al., 1997:209) showed that 18 per cent of all workplaces had employees covered by federal and state awards, 32 per cent by federal awards only, and 45 per cent by state awards only. Five per cent of workplaces had no award or were unaware of which award was relevant to their workplace. Although more employees are covered by state awards, the federal system is more influential in compensation design rules and principles[6].

As stated earlier, the federal industrial relations system was regulated for over 80 years by the Conciliation and Arbitration Act (1904) which set up the initial machinery (a Court of Conciliation and Arbitration), independent of government, for the compulsory conciliation and arbitration of interstate disputes. The Court was given the power to determine and interpret awards, which then became legally binding, but

[6] To complicate matters further, in 1996, the state of Victoria abolished its state IR system and transferred its coverage to the federal system, but reserves the right to retrieve it at will. Other states have not followed this initiative, and retain their own separate systems.

its conciliation and arbitration functions were transferred to the (now named) Australian Industrial Relations Commission (AIRC) in 1956. Interpretation and other functions were given to the Federal Court. A new Industrial Relations Act (1988) (passed by the ALP Government) maintained the division between determination and interpretation of awards, so there is now an AIRC presided over by a legally qualified President, and panels of Commissioners who preside over dispute hearings and regulate compensation and conditions — usually on an industry, occupational, or company basis. Prior to 1996, an Industrial Relations (IR) Court interpreted and enforced statutory rights and duties laid down by the IR Act and awards sent to it. The new 1996 Liberal/National conservative coalition Government passed a new federal Workplace Relations Act (1996), to operate from March 1997, which preserved the AIRC with a reduced role, abolished the IR Court, and transferred some of its functions to the existing Federal Court[7].

The AIRC continues to set minimum entitlements for all employees under international legal obligations, sets minimum conditions or 'safety nets' for federal awards, and certifies workplace agreements (which are usually between unions and a single business or part thereof) (CCH, 1997). Where state and federal awards conflict, the federal award has priority (Deery, Plowman & Walsh, 1997). There is more emphasis on conciliation than on arbitration in the AIRC, and the system does not exclude collective bargaining. If the unions and employers reach an agreement themselves, they may ask the AIRC to register this as a certified agreement, provided it meets certain conditions. Where no agreement can be reached on an item, the AIRC may arbitrate on selected issues. While local informal over-award bargaining has been present in Australia for many years, the Industrial Relations Reform Act of 1993 enacted by the federal Labor Government promoted formal enterprise and workplace bargaining through a newly-established Bargaining Division of the AIRC[8].

[7] The new act set up another statutory body (the Employment Advocate) alongside the AIRC to monitor individual and collective non-union Australian Workplace Agreements (AWAs) that employers and employees wished to register.

[8] The Liberal/National Government's Workplace Relations Act (1996) has accelerated this process by legislating that general federal AIRC awards (which could apply to an industry or a complete occupational group) will only be permitted to include 20 minimum conditions. These have to be supplemented at workplace levels by enterprise agreements either in the form of a certified agreement, an Australian Workplace Agreement or over-award bargaining (Deery et al.,1997), thus forcing decentralisation of the industrial relations system to the enterprise.

While awards have set minima for wages, hours, sick leave and allowances, the common law and a range of federal and state employment legislation have obligated the employer to provide minimum standards of treatment. These laws have applied to annual leave (state), long service leave (state), parental leave (state), occupational health and safety (federal and state), equal employment opportunity (federal and state), affirmative action (state and federal), compensation for work-related injuries (federal and state), equal pay (federal), termination of employment (state and federal), apprenticeships (state), and superannuation (pensions) (federal). State and federal jurisdictions use different mechanisms to set minimum wage entitlements in agreements (Creighton & Stewart, 1994).

For an MNE setting up in Australia, the number and location of plants and offices will determine the range of laws that will influence compensation design. Location in more than one state will mean that the MNE has to observe each state's laws as well as federal legislation. The industry and occupational structure will initially determine which existing federal and state awards and unions the MNE may be subject to. The MNE would only be immediately be subject to a federal award if a union decided to name it as a respondent in a federal award. Alternatively, the MNE would be bound by a relevant federal award if it joined an employer association which had a federal industrial award with unions. Both of these outcomes would depend on the MNE's union recognition policy. There has been some ambiguity in Australia about the extent to which parties could, in the past, 'opt out' of the system of conciliation and arbitration (Fox, Howard & Pittard, 1995), and attempts have been made recently by some employers — with some difficulty — to transfer all unionised (blue collar) employees to individual (white collar/managerial) contracts to avoid the rigidities of the award system and to minimise union involvement. The attempt of the Australian relations system (historically based on collectivism) to handle individual and collective rights equally has been a source of many disputes (Keenoy & Kelly, 1996).

Personal and Company Taxation

The main taxes levied on Australian employers are imposed by state and federal governments. Local government income is mainly derived from property taxes. Employers in Australia usually also have to pay additional state level expenses such as payroll tax, and a loading for annual leave. Employees have income tax deducted at source (pay-as-you-earn: PAYE) at rates determined by their income. The top marginal tax rate in Australia is 48.4 per cent, 'one of the highest marginal income tax rates in the world' (Payne, 1990:73). For non-managerial employees, this has not unduly affected the design of compensation systems. However, two federal taxes (the Fringe Benefits Tax of 1986 and the compulsory superannuation [pension] levy of 1992) have had a major effect on compensation systems.

For executive compensation, legislation on fringe benefits, income tax non-deductibility and capital gains tax 'all have a direct influence on the planning, design and management of executive packages' (O'Neill, 1990b:xii). Fringe Benefit Tax (FBT) legislation was introduced in Australia in July 1986 to broaden the tax base. Prior to its introduction, executive compensation typically consisted of a base salary, superannuation, employee benefits (such as a motor vehicle, holiday travel and spouse entertainment allowances) and a bonus (O'Neill & Clark, 1990). The package was selected in a 'cafeteria' fashion to suit personal requirements, maximise available cash and minimise PAYE liability (p.3). While all components of the package were theoretically taxable, the then tax laws and administration[9] usually failed to collect tax on motor cars and various cash allowances. Many high-income earners therefore received a large proportion of their compensation tax free (Clark, 1992).

The introduction of FBT, a tax borne by the employer, soon led to the withdrawal of many employee benefits (O'Neill & Clark, 1990). The current FBT rate is 48.25 per cent, while the company tax rate is 33 per cent. It is only advantageous to employers to provide employee benefits instead of cash by packaging concessionally treated and exempt items. Company cars are still marginally tax effective, as is child-care on an employer's premises. Employer superannuation contributions and discount benefits on employee share schemes are excluded from FBT and are concessionally taxed under the Income Tax Assessment Act. It is difficult to obtain national data on the effect of FBT on packaging. The latest ABS survey available conducted in 1992 (and quoted in CCH Australia, 1997:6792), suggested that 'most benefits showed a decrease in 1992 compared with 1991', except for superannuation. Unlike Singapore, Australia does not have a goods and services tax, but does have a capital gains tax

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[9] Under the federal conservative Liberal/National Government

(under the provisions of the Income Tax Assessment Act) that affects employee share plans, and particularly, executive share plans. However, a goods and services tax in Australia will commence on 1 July, 2000.

National Superannuation

Unlike Singapore, with its longstanding national Central Provident Fund, superannuation in Australia has developed in an ad hoc fashion and has been uneven in coverage of employees. Paatsch and Smith (1992) identified four main types of superannuation: public sector, private sector/single employer sponsored, national, and industry or award superannuation. The oldest superannuation schemes in Australia — for state public servants in the colonies — commenced in the 1850s and 1860s, but were somewhat transitory (p.3). Superannuation for Commonwealth public servants was introduced in 1922. Private sector/single employer schemes have historically been focused at executive level, and more junior white collar employees working in sectors like banking and insurance. Wage earners were not so well covered, and in November 1991, 750,000 (15.3 per cent) full-time employees out of a full-time workforce of 4.9 million were still not in a superannuation scheme (ABS, 1991a: Catalogue 6319.0).

Because of this disparity of benefit, the unions sought to expand superannuation through award negotiations. Taking up their cause, the (ALP) Federal Government introduced the Superannuation Guarantee (Administration) Act (1992), under which employers could avoid paying an equivalent tax levy only if they made minimum superannuation payments into an appropriate fund for all employees irrespective of their award coverage. The minimum employer superannuation support as a percentage of ordinary time earnings was 3 per cent for payrolls of A$1 million or less in 1993, and 5 per cent for payrolls of more than A$1m. This will rise to 9 per cent for all payrolls, irrespective of size, by 2002. Any shortfall in contributions to an official superannuation scheme results in a 'charge' to the employer equivalent to the amount of superannuation that should have been paid. The definition of an employee under the superannuation legislation goes beyond that in awards and includes contractors as well as casual and part-time staff.

The Industrial Relations System in Australia

As already noted, Australia has six industrial relations systems rather than one. As the federal system dominates, it will receive most emphasis. Major legislative changes operating from 1997 are touched on only briefly to show recent developments, as the legislation applying to the case studies was that in force in August 1995.

The formation of national industrial relations institutions in Australia at the beginning of the twentieth century was the result of the emergence of the factory system, new general and industrial trade unions, and concern over the compensation and conditions of service in some 'sweated trades' (Dufty & Fells, 1989). Major industrial conflict in the 1890s led governments towards the concept of a national arbitration system (p.255). Industrial relations systems and tribunals were set up in Victoria, New South Wales and Western Australia around the turn of the century, and later in the other states. In order to ensure that disputes within state boundaries remained state matters, the new Constitution of 1901 confined the federal government to making laws for conciliation and arbitration only for disputes that extended beyond the limits of any one state.

The Conciliation and Arbitration Act (1904) was eventually passed by a coalition government and set up the Commonwealth Court of Conciliation and Arbitration (now the Australian Industrial Relations Commission) (AIRC) to handle inter-state disputes. Prior to 1996, the main role of the Commission was to prevent and settle disputes. The determination of wages was only an 'incidental part' of this process[10] (Deery & Plowman, 1991:329)[10]. However, since wage settlements have economic implications, governments over the years have tried to usurp some of the functions of the tribunals because of their concerns over price and wage rises. Governments have also tried to redirect the level at which pay negotiations take place particularly through the legislation of 1988, 1993 and 1996 which restructured the federal system. Since 1988, the AIRC has had to encourage and facilitate the making of agreements at workplace or enterprise level, to establish and maintain a framework for protecting

[10] The Workplace Relations Act (1996) of the conservative Liberal/National Government changed the principal objective of the AIRC to one of providing 'a framework for co-operative workplace relations which promotes the economic prosperity and welfare of the people of Australia' (s.3).

wages and conditions of employment through awards, to prevent and settle disputes, encourage representative bodies (e.g. unions) to register under the Act, and to prevent and eliminate discrimination.

Disputes can be notified to the AIRC by employers or their associations, or registered unions. The mechanism for generating a dispute is that one side (usually the union) serves a letter of demand on the other side (the employer) containing a log of claims. The log of claims sets out the wages, conditions or other issues demanded. If the employer rejects the log or fails to reply within a set time, the union formally notifies the AIRC of the dispute. The AIRC then determines whether a dispute exists under IR legislation. The bulk of the AIRC's work is to settle 'paper disputes' rather than those involving industrial action (Plowman, 1992a). If the AIRC agrees that there is a dispute under its jurisdiction, it would initially attempt to deal with the problem by conciliation through compulsory conferences involving both parties. If conciliation fails, the members of the AIRC can then give an arbitrated decision in certain situations. From 1 July 1994 to 30 June 1995 there were 18,401 matters determined by the AIRC (AIRC, 1996:28). Of these, 601 (3 per cent) were new awards, 2,416 (13 per cent) were approved or certified agreements, and 6,660 (36 per cent) were unlawful employment terminations.

The main product of the Australian IR system is the 'rules' or 'awards' which determine the conditions of employment (Deery, Plowmna & Walsh, 1997:9.1). These awards are the main influence on the compensation design of non-managerial staffs in Australia and may be classified in different ways: federal or state, industry or occupational, single or multiple employer awards, and minimum rates or paid rates awards[11] (Plowman, 1992a). The most influential awards, according to Plowman (1992a), are the multi-employer awards which set the conditions for large numbers of employees in many enterprises. While the number of single-employer awards is greater than the multi-employer category, only about 10 per cent of the workforce in

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[11] Paid rates in an award are the actual wages which had to be paid by the employer and could not be supplemented by over-award payments. Under the Workplace Relations Act (1996), paid rates can no longer be awarded by the AIRC. The government strategy was to make the Commission a body that could set only national minimum standards, leaving the parties at the workplace to negotiate amounts over and above these, with the employer setting conditions and standards for pay increases — another factor to encourage decentralisation of the system.

1992 were covered by single-employer awards (p.81). However, with the trend towards enterprise agreements, this figure is likely to increase. The other dominant type of award has been the occupational award by which occupational unions (such as the Transport Workers' Union) had the legal right to have their own awards applied across various industry sectors.

With multi-unionism and occupationally based awards, most large establishments have to manage several different awards. Although the number of unions is declining and companies are trying to negotiate enterprise awards, Morehead et al. (1997:147) found in the 1995 Australian Workplace Industrial Relations Survey of 1,958 organisations with more than 20 employees that unionised workplaces with more than 500 employees had an average of 3.8 unions compared with a national average of 2.0 unions. The average number of unions present in workplaces with 500+ employees in the 1990 survey was 6.3 (p.147). The average number of awards in workplaces is positively correlated with size, and sites with more than 500 employees had an average of 7.5 awards, compared with 2.1 for those with 20–49 employees (p.519). The average number of awards for all 1,972 workplaces with more than 20 employees surveyed was 2.5. While union members are less likely to be found in smaller workplaces, it is the award covering a company that is most influential in compensation paid, rather than union numbers.

The other categories of awards are paid or minimum rates awards. As noted in the footnote, the paid rate award prescribes the *actual* rather than the *minimum* rate of pay to be received by employees in a particular job classification. Most private sector awards are minimum rate awards, and the employer may then negotiate an 'over-award' rate depending on the capacity to pay and the labour market. Over-award payments have historically been private agreements between the employer and the employee or union negotiated outside the AIRC system, and will not be ratified by the AIRC.

Unlike Singapore, since the 1890s, Australia has experienced a relatively high level of overt industrial conflict when measured by number of strikes. However, since 1980, the number of industrial disputes has fallen steadily. The number of conflicts decreased from 2,429 in 1980 to 642 in 1995 with the number of working days lost falling from 649 per thousand employees in 1980, to 79 per thousand in 1995 (Deery, Plowman & Walsh, 1997:10.8–10.11). The total of 518 strikes in 1996 was the lowest number recorded since 1940 (p.10.8).

The Department of Industrial Relations[12]

Like the Ministry of Labour in Singapore, the Department of Industrial Relations of the federal government in Australia (and similar departments in the states) have responsibility for assisting the government in the development and implementation of policies and programs 'designed to achieve its industrial relations and wider social and economic objectives' (Yerbury & Karlson, 1992:96). These policies and programs are aimed at producing an efficient labour market and industrial relations system. The Department's functions also include providing advice to the government, promoting sound industrial practices, preparing and presenting the government's submissions to the National Wage Cases at the AIRC, developing appropriate legislation, and negotiating for the government on compensation for the Australian Public Service (Deery & Plowman, 1991). The observance of awards is encouraged by the Department's Inspectorate, which can visit employers and demand documentation to check compensation rates (Deery, Plowmwn & Walsh, 1997). Employers breaching awards may be prosecuted. Unlike its Singaporean counterpart, the Australian Department of Industrial Relations does not provide a conciliation service for differing parties. This is done in the industrial tribunals.

A second main actor in the IR system is the Federal Court of Australia, which hears cases on interpretation and enforcement of awards, breaches of union membership or election rules, and the recovery of underpaid wages (Deery, Plowman & Walsh, 1997). The Australian Industrial Registry is the administrative arm of the AIRC; it maintains a register of employer associations and unions[13].

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[12] The Department of Industrial Relations has undergone a number of name changes since 1995 to reflect the greater focus on the enterprise industrial relations, and to redistribute portfolios to ministers in the present Liberal/National Government. The Department's current name is Employment, Workplace Relations and Small Business, but it still performs a similar industrial relations role to that performed in 1995.

[13] The Workplace Relations Act [1996], as noted earlier, created the new role of Employment Advocate to monitor non-union individual and collective Australian Workplace Agreements.

The Unions

Before the introduction of the conciliation and arbitration systems in Australia, trade unions were subject to the English Trade Unions Acts of 1871 and 1876, under which they were required to register (Creighton, Ford & Mitchell, 1993). Further legislation was introduced in the period 1876–1902 regulating union status, but the advent of the conciliation and arbitration system at state and federal levels further defined the status of unions and guaranteed them security against employers and rival unions (p.889). Their recognition and encouragement by the industrial tribunal systems pushed their relative numerical strength to one of the highest in the industrialised world (p.889).

The first unions in Australia were small mutual benefit societies for skilled craftsmen which were formed in the early nineteenth century to protect members against unemployment and illness (Deery & Plowman, 1991). The coordinating bodies of Trades and Labour Councils commenced in Sydney and Melbourne in 1871 and 1884 respectively and spread to other capital cities in the 1890s. By 1891, Australia had 124 unions with nearly 55,000 members (Creighton, Ford & Mitchell, 1993). Depression and some severe defeats of union strikes in several main industries in the 1890s led to the formation of the Australian Labor Party in 1891 and to union pressure for a compulsory arbitration system. Between 1901 and 1926, the number of unions rose from 198 to 372, falling slightly in the 1930s and then hitting a peak of 375 unions in 1956. The percentage of the workforce in unions increased from 6.1 per cent in 1901 to 55.2 per cent in 1926 and 59 per cent in 1956 (p.225). The membership trend from 1961 to 1996 can be seen in Table 6.3.

Table 6.3
Membership of Australian Trade Unions, Selected Years, 1961–96

Year	Number of Unions	Total Members ('000)	Total Members as percentage of total employees
1961	355	1894.6	57.0
1971	351	2452.2	51.0
1981	324	2994.1	56.0
1991	275	3382.6	53.0
1996	132	2800.5	40(a)

Source: ABS, Trade Union Statistics Australia, Catalogue No.6323.
Note: (a) ABS data on financial membership suggests that this percentage could be 35 per cent.

Table 6.3 shows that the number of unions has been declining (mainly due to amalgamation) and that increased membership has not necessarily raised the density of membership. Deery and colleagues (1997) suggest that the figures need to be treated with caution as these data are supplied by unions. Other ABS data (for example, *Trade Union Members Australia*, Catalogue No.6325.0) collected by household surveys puts the union density level at 31 per cent and membership at 2,194,000 in 1996. There are also statistical problems in the counting of employees who belong to more than one union, and the numbers of federal and state unions. In 1991, there was a total of 275 unions in Australia, of which 119 were federal and 134 state (ABS, Catalogue 6323.0). The data in Table 6.3 also conceal variations in membership by occupation, gender, and private and public sectors — union density in the public sector being traditionally higher. It is in the private sector that the decline in union density has been dramatic — from 38.6 per cent in 1982 to 29.4 per cent in 1992 (ABS Catalogue No. 6325.0). Various reasons have been given for the decline in union density. Deery, Plowman and Walsh (1997) posit that it might be due to the growth of the service sector, the unpopularity of unions, the decline of traditional areas, the growth of smaller work places, the rise of non-regular forms of employment, and changes in the gender composition of the workforce. In addition, the rise in the number of self-employed people and high levels of unemployment have been proposed as other reasons for the decline in union density (Fox, Howard & Pittard, 1995).

Australia possesses four types of union organisation — craft, occupational, industrial and general unions (Creighton, Ford & Mitchell, 1993) and a large number of mainly small unions. Union density varies by state mainly because of industrial structure, and significantly between industries. The employees permitted to be covered for membership by a union is determined at registration. Apart from two exceptions (in banking and [formerly] in public broadcasting), enterprise unions are unknown in Australia. Concern about the decline in membership caused the main coordinating body — the Australian Council of Trade Unions (ACTU) — to restructure the unions through amalgamation to seventeen broad industrial groupings[14] (Deery, Plowman &

[14] In order to encourage enterprise unions, the Workplace Relations Act (1996) has reduced the minimum number of members needed for registration from 100 to 50.

Walsh, 1997). This has proved to be a difficult process because of resistance by the occupational unions and ideological differences between unions (p.7.26).

Inter-union cooperation operates through a system of federal and state peak councils. Several national councils have now been absorbed into the ACTU, which is the main national body. Its main role is mediation in large disputes, representing the union movement on a range of committees, presenting the union case at National Wage Case hearings and providing a vision for unions in areas like economic and social policy, productivity, skill formation, and education and training (Gardner & Palmer, 1992).

The Employer Associations

Apart from Plowman's work (1987; 1992a; 1992b), employer associations have not attracted much interest from Australian academics. Plowman (1992a:143) defines employer associations for the purpose of analysing their role in industrial relations as 'associations consisting predominantly of employers whose activities include participating in determining employees' conditions of employment on behalf of members'. No official data are available on the number of employer associations in Australia. Plowman (1992a) estimates that there may be about 100 employer associations that meet his definition quoted above, and about 2,000 employer organisations in total. The earliest employer associations were temporary alliances of employers in the early 1800s who combined to handle labour problems. According to Morehead et al. (1997), the 1995 Australian Industrial Relations Workplace Survey showed that three-quarters of workplaces in the private sector with more than 20 employees belonged to an employer association, compared with 62 per cent in the public sector (p.427). About 70 per cent of all workplaces used an employer association to gain advice on award rates of pay, and 62 per cent to obtain information on award standards and variations; in 30 per cent of workplaces, the employer association represented the company in negotiations with unions.

If an employer association is prepared to handle a company's industrial relations issues, it can represent employers in collective bargaining, present cases before state and federal tribunals, provide information, research, advice and training programs, represent employers in relations with governments and the media, and act as a forum for the exchange of views (Fox, Howard & Pittard, 1995). Despite the decentralisation of industrial relations to enterprise agreements, representation of a group of employers in tribunals is likely to remain a major role, along with training in local negotiating skills, benchmarking and performance management. Most employer associations are still respondents to many awards (Plowman, 1992a).

The predominant employer association is the Australian Chamber of Commerce and Industry (ACCI). The ACCI (formed in 1992 as a result of an amalgamation of the Confederation of Australian Industry and the Australian Chamber of Commerce) consists of 14 State/Territory employer associations and 26 national industry employer associations (Fox, Howard & Pittard, 1995). The main employer associations may well adopt different positions on compensation, which creates a problem for the AIRC when, on hearing a National Wage Case, it may receive varying submissions from 12 employer groups (Gardner & Palmer, 1992). In the 1990s, the employer strategy has been to support labour market deregulation to weaken trade unions, while at the same time leading 'legal challenges against trade union action and strike breaking' (Gardner & Palmer, 1992:122), and 'attempting to change bargaining structures to suit their situation' (Gardner & Palmer, 1997:129).

Incomes Policies

The process of wage determination in Australia is an interplay of unions and management supplemented by the decisions and influence of the AIRC and the federal government (Gardner & Palmer, 1992). The AIRC has been accused by employers of perpetuating rigidities in wage determination by fixing wages irrespective of labour market pressures. The question for governments has then been whether wages policy should be centralised or decentralised through greater collective bargaining, and how wages policy should be linked to economic efficiency and social equity issues.

As mentioned earlier, under the Australian Constitution, the federal government cannot determine wages directly, so the AIRC and its predecessors have established the nation's wages policy. It has done this through the decisions of National Wage

Cases and the setting down of National Wage Principles. However, the federal government can legislate on the role and powers of the AIRC, and AIRC policy is based on the arguments it receives from employers, unions and governments as, in a technical sense, it is settling a dispute placed before it. Despite this constraint, over the years the wage principles behind its decisions have taken into account the state of the economy, the level of employment, and inflation (Section 90, Industrial Relations Act [1988]). Nevertheless, the right of the federal government to appear before the Commission and to determine the AIRC's powers has meant that governments have had indirect influence over wages policy in addition to the submissions of unions and employers (Gardner & Palmer, 1992).

The decisions of the AIRC affect award wages in two ways: (1) the National Wage Case policy guidelines, and (2) the fixing of wages in key industrial and occupational awards. However, the AIRC has not had complete control over earnings. AIRC decisions on wage rates are supplemented by over-award payments, performance pay and overtime at workplace levels — that is, 'where management opts to pay more than the prescribed minimum award rate' (Callus et al., 1991:42). Furthermore, managers (particularly in the private sector) are not covered by awards and are not therefore subject to AIRC decisions. Thus, as Gardner and Palmer (1992:320) argue, the Australian arbitration system has not necessarily produced 'more inflexibility in general and relative wage levels than collective bargaining'.

For the 80 per cent of the workforce who are covered by the 5,000 or so state and federal awards, various AIRC national wage policy principles have emerged since the beginning of the century. The first, in 1907, was an attempt to establish a basic wage based on the needs of the employee. This was followed in the 1930s by the capacity of industry to pay. The third was a margin over the basic wage for skill, and comparative wages for equivalent skills. A fourth approach was to award compensation increases in line with cost of living indices (known as 'indexation' in Australia). Pressures in the economic cycle (such as in 1986) have periodically led to the abandonment of indexation by the AIRC.

The most notable attempt at a long-term incomes policy in Australia was in 1983, when the ACTU and the new ALP Government signed a Prices and Incomes Accord

('The Accord'), which led to high union involvement in national industrial relations policy and substantially agreed submissions to the AIRC until the ALP Government's defeat in 1996. The Accord resulted in major revisions of wage guidelines by the AIRC and legislation changing wage determination in Australia. The Accord's (ALP/ACTU, 1983) main emphasis was on reducing unemployment and restraining compensation increases across the economy and was the subject of intense academic interest (see, for example, Carney,1988; Ewer et al., 1991; Singleton, 1990; Lewis & Spiers, 1992; Hearn, 1987). Arguably, the Accord had more political than economic benefit for the ALP Government, because it resulted in a decline in real wages and industrial disputes (Fox, Howard & Pittard, 1995). The Accord was renegotiated with the ALP Government seven times by the unions over a period of 12 years, and developed a strong 'social wage' agenda consisting of the following priorities: employment, a universal health care system (Medicare), superannuation for all workers, child-care, job protection and security, more equity in taxation and occupational health and safety (Harcourt, 1994). The ALP Government and the ACTU eventually supported a complete restructure of the award system with an emphasis on skill-related career paths, multi-skilling, flexibility and enterprise bargaining plus a 'safety-net' wage adjustment for weaker and lower paid workers. A summary of the AIRC NWC recommendations from 1975 to 1995 is shown in Appendix 6.1, and thus includes the national wage decisions of the AIRC in relation to the Accord from 1983 to 1995.

Enterprise bargaining is now at the heart of the IR system, with a back-up of awards and minimum employment standards. Even non-union workplaces have access to the enterprise bargaining system, provided the conditions of an agreement are no less favourable than are available through an award..

The Overall State of Australian HRM

Prior to 1939, the only personnel role which could be called specialist was that of industrial relations, which was possibly needed to 'counter the growing political and economic influence of organised labour' (Wall, 1971:25). Wright (1991) argues that modern personnel practice dates back to the Second World War, when the federal government trained welfare workers to assist with the problems of inexperienced employees in the munitions factories. By 1945, they numbered over 150 persons and became employed in private industry as well as government owned enterprises (p.3). The personnel function expanded after 1945 for three reasons (Wright, 1991). First, the growth in industry led to high demand for labour which was prone to high labour turnover. Secondly, the advent of management education and professional associations resulted in the dissemination of personnel practice; and thirdly, the newly arriving multinational enterprises brought with them more sophisticated HRM practices and a management training culture (p.6). However, for the 1940–60 period, the lack of appropriate personnel training, the dominance of the IR function, and the continued use of informal management practices in the smaller firms, all tended to leave specialist personnel practice at a fairly basic level.

Dunphy (1987: 40) states that, on returning to Australia in 1967 from overseas, he found 'a largely monolithic organisation culture in Australia'. Organisations were bureaucratic and designed on church and military models, possibly because of the military experience of that generation of managers. Personnel departments 'were low-level operations mainly concerned with hiring, deployment, remuneration, retirement and firing' (p.41). By the early 1970s, 'personnel administration' was still seen as lacking 'professional standing', with the volume of research on personnel management being 'pitifully small' (Wall, 1971:27). Two reasons suggested for the slow development of HRM formal policies in Australia were (1) the large numbers of small companies in the nation, and (2) the existence of standardised wages and conditions based on awards which may have discouraged firms from developing a wide range of HRM policies (Gardner & Palmer,1992).

Two surveys provide an insight into the current practice of HRM in Australia. The AWIRS (1990) survey of 1,935 workplaces with over 20 employees asked organisations to indicate which new techniques they had introduced from a provided list in the five years prior to the survey (Callus et al., 1991). The results are shown in Table 6.4. Callus et al. (1991) found that 50 per cent of workplaces had introduced three or more efficiency changes in the previous five years from the list and that large workplaces were the most likely to have introduced three or more changes. A September 1993 survey of 793 respondents carried out by CCH Ltd and the Australian Graduate School of Management (CCH, 1995) found that the use of

Table 6.4
Efficiency Changes Introduced in the Years 1985–90 in AWIRS Surveyed Organisations (N=1,935)

Changes	Workplaces %
Staff appraisal/evaluation	56
Formal training scheme	48
Job redesign	38
Incentive/bonus scheme	27
Quality circles/team building	26
Total quality control	26
Computer integrated management	19
Semi-autonomous work group	16
Skills audit	16
'Just-in-Time' system	7

Source: Extracted from Callus et al. (1991) Table 9.5, p.193.

mission statements and written organisational goals/objectives was high (89 per cent and 86 per cent respectively). The planning time horizon had got shorter since 1989, and many organisations were still changing their mission statements. Compared with a similar 1989 survey, fewer organisations were doing human resource planning and of those that did, only 2 per cent were doing 'advanced' HR planning defined as 'computerised workforce audits and workforce supply and demand analysis' (p.1473). CEOs were more involved in HRM activities in smaller organisations than in medium to large organisations. The use of complex staffing techniques and job analysis had not changed significantly over the previous four years, but there had been a general increase in the use of formal appraisal across all occupational groups (p.1475). The link between rewards and performance had also strengthened for executives, middle managers and administrative/clerical staff. Other areas which respondents stated were receiving more emphasis were induction training, identifying training needs, management training, culture change programs, staff skills training, team building and competency profiling (p.1480). Missing from this list was the evaluation of HR programs and organisational learning initiatives. The authors concluded that human resource practices had not been sufficiently related to the changes in the corporate strategies of organisations (p.1485).

The National Wage Cases and restructuring of awards from the late 1980s onwards stimulated work on competencies and career structures for lower paid staff with union support. In addition, more recently, the HRM function has been grappling with the downsizing, rationalisation, restructuring and devolution of organisations, customer service improvements, participative management changes, TQM, benchmarking, industry best practice, re-engineering of work processes, and a variety of change strategies (Stace & Dunphy, 1994). Companies in 1995 were particularly active in quality circles and team-building initiatives (Morehead et al., 1997). Outsourcing of human resource services was being considered on a major scale in some public services, particularly in Victoria (State Government of Victoria, 1994). At the same time, modification of compensation systems, especially at lower levels, has also been occurring in Australia. According to a survey of HR practitioners in 1995 by Dowling and Fisher (1997), the complexity of this agenda seems to be matched by a growth in the size of many HR Departments from 1990 to 1995 (as reported by 39 per cent of 883 senior HR managers), and a rising educational level, with 23 per cent of all 2,795 HR practitioners surveyed having graduate (post bachelor's) qualifications (p.10).

Wage Systems in Australia

The distinction between wages (blue-collar) and salary (white-collar) employees has been somewhat artificial in the Australian workforce. Using award coverage as the criterion to separate managerial from non-managerial staff is not completely satisfactory, as many professional and managerial workers in the public sector have their compensation determined by awards. However, for the purpose of this section, wage systems are taken to mean the compensation systems of industrial and clerical employees paid by an award, collective agreements or enterprise agreements, but excluding professional and managerial staff paid by an award, and managers and executives who are paid outside the award system ('award free'). The Australian Bureau of Statistics has used the 'eligibility to receive overtime' as one way of distinguishing managerial from non-managerial employees (ABS, 1991b: Catalogue 6315.0) — the latter receiving payment whereas the managerial would not for working beyond normal contracted hours.

The 1992 CCH survey (CCH, 1995) sought views on which factors had most influence in determining the compensation of employees subject to awards or industrial agreements. Table 6.5 shows the rank order of the percentages of respondents giving factors a 'very important' rating for their impact on compensation.

Table 6.5
Rating of Importance of Factors Considered in Setting Compensation Ranges and Benefit Entitlements: Award/Industrial Agreement Positions Only (N=391)

Factors influencing the setting of compensation and benefit levels	Percentage of organisations giving this factor very important rating
Rates and conditions in state and federal awards	52
Organisation's capacity to pay	34
Enterprise-level bargaining with unions	26
Job evaluation	12
General market rates and provisions	11
The level of job skills or competencies required	11
The strategic importance of the position to the organisation	10
Competitors' compensation and benefits policies	8
Traditional internal relativity within the organisation	8

Source: Adapted from Table 6, CCH (1995) Human Resource Mangement, Volume 1, Sydney, CCH Australia, p.5853.

Table 6.5 depicts that the award system has the most impact on compensation levels, but that the capacity to pay and enterprise bargaining with unions were also important. As previously discussed, awards can be state or federal, and typically prescribe a fixed pay rate for various occupations and classifications without annual increments for service. They also usually include the main elements of the contract of employment, hours of work, overtime, shift and penalty rates, annual leave, sick leave, various allowances, and the conditions for retrenchment and redundancy. Prior to their restructuring in the early 1990s, awards were extremely complex. For example, the federal Metal Trades Award had more than 300 pay classifications in 1979, each of which had seven pay rates according to location of work site across Australia (ACAC, 1979, Print D8906).

As noted earlier, the award system 'has a much wider application than the degree of unionisation' (BCA, 1989:49) because awards may apply to all enterprises, whether unionised or not, 'by roping-in [other companies] to federal awards or by common rule [setting a state-wide pay rate] in the state jurisdictions' (p.49). In 1985, 85 per cent of Australian employees were covered by awards, even though less than half the workforce was unionised. An ABS Award Coverage survey of 83,000 employees in May 1990 found that award coverage had declined to 80 per cent, with 31.5 per cent of employees being covered by federal awards and 46.5 per cent being covered by state awards (ABS, 1991b:Catalogue 6315.0). The major awards with estimated employee coverage as at May, 1990 were: Metal Industry (federal – 185,100); Shop Employees (NSW state – 107,500); Clerks (NSW state – 107,500); Commercial Clerks (Victorian state – 85,200); and Bank Officials (federal – 76,500) (ABS, 1991b). The distribution of awards coverage can be summarised as follows:

- award coverage is higher in the public sector compared to the private sector (97.8 per cent of employees compared to 72.4 per cent)
- award coverage fell more in the private sector in the years 1985–1990
- in May 1990, 85.7 per cent of non-managerial employees were covered by awards, determinations or collective agreements
- for managerial employees, 33.7 per cent were covered by awards.

(Source: ABS [1991b] Award Coverage Australia, May 1990, Catalogue No. 6315.0, 1-4)

The AWIRS 1995 survey of 1,972 workplaces with more than 20 employees found that the number of awards per workplace had declined from 3.3 in 1990 to 2.5 in 1995 (Morehead et al., 1995:519) — as noted earlier. The public sector had a higher average number of awards because of its different union structure. The difficulty for the employer in reforming a compensation system is that an organisation may be a party to a multi-employer award, perhaps with important sections covered by company awards/agreements. From the 1970s, however, there was 'substantial growth of single-employer awards at both federal and state levels', many of these splitting off from multi-employer awards (BCA, 1989:52). For example, all oil companies were unified and negotiated an oil industry award. They now have individual company and even site awards and agreements.

An indication of the forms of rewards for employees paid via awards or industrial agreements can be gained from the 1992 CCH/AGSM survey (CCH, 1995). The results are shown in Table 6.6. The high reliance on a base salary only for wages staff is to be expected, as is the low incidence of cash incentives. Callus et al. (1991:44) states that most awards in Australia 'are silent on performance or merit-based pay schemes' (p.44), but the 1995 AWIRS study (Morehead et al., 1997) registered a higher use of performance-based pay schemes for non-managerial employees in workplaces with more than 20 employees — 33 per cent (p.530) — compared with 17 per cent in the CCH/AGSM study. The AWIRS research found that the distribution of performance-based compensation varied across industry sectors, being more common in wholesale and retail, finance, mining, and property/business services

Table 6.6
Forms of Reward For Wages/Award Employees, 1992 (N=394 organisations)

Form of Reward	Percentage of Organisations
Base Salary Only	77
Performance-based cash incentives/bonuses	17
Performance-based non-cash incentives/bonuses	6
Non-cash benefits as a component of salary package (e.g. housing loans, car)	20
Employee share schemes	16
Intangible or symbolic forms of recognition	36

Source: Adapted from CCH (1995) Human Resource Management, Sydney, CCH, Table 7, p.5630, and correspondence with survey author.

(p.530). Of the workplace performance-related pay schemes for non-managerial staff, 79 per cent were linked to individual performance, 32 per cent to workgroup performance, 15 per cent to workplace performance, 15 per cent to profits, and 23 per cent to the performance of the whole organisation (Morehead et al., 1997:531).

Another way in which organisations seek to gain more autonomy in compensation systems is to pay above the award rates without industrial tribunal ratification. Over-award payments can be defined as 'payments in excess of award obligations' (Worland, Underhill & Brown, 1994:xiii). In the 1995 AWIRS study, the main reasons given by respondents for payments were to reward the merit or skills of an employee, seniority, 'or to attract or retain employees' (Morehead et al., 1997:215). In about 60 per cent of workplaces, over-award pay was not negotiated but set by management; unions become more involved in negotiations in larger enterprises. Over-award payments date back to 1945, although rarely were enterprise wage increases linked to productive and efficient work practices (EPAC, 1992) or to formal performance appraisal. Callus et al. (1991) thus conclude that there is a wide diversity of pay systems in Australia, even within the regulated system. They continue: 'there are many opportunities for management, either unilaterally or through bargaining, to introduce systems which improve pay and conditions beyond prescribed awards'(p.47).

As well as over-award payments, the 1995 AWIRS study used three other main types of payment system: award rate only, the workplace or enterprise (collective) agreement rate and individual arrangements (Morehead et al., 1997). Where a particular method covered more than 60 per cent of the employees in a workplace, it was deemed 'the dominant system' (p.223). The results of the survey are shown in Table 6.7.

Table 6.7
Dominant Compensation Systems at Workplaces With More Than 20 Employees, 1995 (N=1810)

Type of System	% Workplaces
State Awards	25
Federal Awards	14
Over-awards	16
Collective Enterprise Agreement	31
Individual Arrangements	6
Mixed	8

Source: Morehead, A., et al. (1997) Changes at Work — The 1995 Australian Workplace Industrial Relations Survey, Melbourne, Longman, p.224.

Table 6.7 records that the award system was the main basis for compensation in 55 per cent of workplaces, although enterprise collective agreements were the biggest single pay method. The general figures conceal differences between industries. Reliance on state awards was most common in education, accommodation and restaurants; federal awards were dominant in retail and health and community services as well as accommodation and restaurants; over-award payments and individual contracts were most frequent in the wholesale trade, while 95 per cent of the communications industry workplaces had enterprise agreements as their main compensation method (Morehead et al., 1997:535). Controlling for employment size, non-union sites were more likely to have over-award pay and individual contracts as their main payment forms. Although many enterprise agreements have insulated a company from industry movements in wages, and linked pay to productivity, many agreements still use many of the provisions of the previous federal 'parent award' (DIR, 1996:xxvi).

Summing up, a new MNE subsidiary based in Australia is faced with a number of choices for its wage compensation system. The first decision is whether unions would be recognised for bargaining purposes. If they are, the MNE subsidiary would probably come under an existing federal award. To give itself flexibility, it could attempt to (1) negotiate its own federal company agreement with unions (with conditions equivalent or better than the existing award) and have it certified by the AIRC, (2) negotiate a series of individual workplace agreements if it has locations across the country and have these certified, (3) opt for an enterprise agreement under state legislation in some states, or (4) have informal agreements by negotiating conditions which were superior to relevant awards (over-award agreements) outside the formal system[15].

Salary Systems in Australia

Salary in this context is taken to mean the compensation paid to managerial staff classified by the ABS (1991b:23) as adult managerial, executive, and professional and higher supervisory staff. Complexity arises here because as at May 1990, one third of managerial and executive employees were covered by state or federal awards (ABS, 1991b). Two-thirds of managers are remunerated on an 'award-free' basis.

The research on salary systems in Australia is mainly confined to some early work on the use of incentives, some annual surveys by compensation consultants, and the 1992 CCH/AGSM survey on compensation (CCH, 1995). Early texts on salary administration in Australia were mainly prescriptive, rather than descriptive of the nature of salary systems existing at the time. Issues such as job evaluation appeared in the Australian HRM literature in the 1950s (see Chandler, 1952), although how this would integrate with the award structure was the main question (p.19). In a 1960 survey of 300 undertakings, Gepp (1961) found that 126 of these (42 per cent) claimed to have a 'definite salary structure' for executives, that 9.3 per cent used job analysis or evaluation, and that 7.6 per cent had pre-determined ranges for executives. Braybrook's (1969a; 1969b) survey of 145 manufacturing firms in 1968 sought to determine the degree of formalisation of executive salary systems, defined as pre-arranged classifications for positions, with a stated minimum and maximum range and incremental steps. The findings were that informal salary systems existed in 74 per cent of firms. Only 8 firms used formal job evaluation, but 90 per cent stated that salary levels were based on the worth of the job to the organisation. Gunzburg (1971a; 1971b) surveyed executive salaries in 132 non-manufacturing firms and found that 52 per cent of the sample paid bonuses. Of the 52 per cent, about one-half used

[15] As from 1997, if an MNE did not wish to recognise unions, it could negotiate non-union individual or collective Australian Workplace Agreements for major groups of employees and register these with the new Employment Advocate. These have to be signed by each individual employee. If the MNE wished to remain totally outside the formal system, it could attempt to negotiate in-house in individual contracts for all staff.

an established formula to determine the size of the bonus; the remainder used 'ad hoc' methods. There was a considerable variation of practice across industry and across occupations.

The current salary practice for award-free managers in Australia includes salary grading and ranges, total compensation, salary increase mechanisms, salary survey/market comparison procedures and superannuation plans (Riggs, 1989). Job evaluation is well entrenched in Australia, as are the international firms of consultants like such as Hay, PA Consulting and Towers Perrin. Riggs (1989) in his review of salary systems in 1988 stated that organisations were 'increasingly looking for integrated approaches to performance management, covering target-setting, appraisal and merit review of salaries' (p.8), and widening the ranges of salaries for particular positions. Cars were provided to the majority of senior managers on salaries above A$50,000 and nearly all CEOs (p.9). The concept of 'total compensation' was becoming accepted, and income tax, capital gains tax and the Fringe Benefits Tax (FBT) all influenced compensation components. Incentives for senior managers were becoming more common, but little progress was noted in gain-sharing schemes in 1988, and there was also scope for more employee share plans. In the same year, senior executives' pay had to be disclosed in company annual reports because of federal government legislation.

In a similar annual review of salaries in 1990, Jankelson (1990) noted increasing differentiation in salary increases between the lowest and highest paid employees in the late 1980s. The flattening of organisations had put pressure on traditional job evaluation systems, but the Hay Consultants' survey had detected a greater use of bonuses, profit-sharing and target-based incentives (p.32). Despite FBT, the range and value of benefits had not changed greatly between 1986 to 1989.

O'Neill and Clark (1990:3) considered the major influences on executive compensation for the early 1990s to be 'taxation, executive wealth creation, social and political scrutiny and the link with performance' (p.3). They argued that FBT would result in a reduction in employee benefits for executives and a 'move back towards cash' (salary and bonuses/incentives) (p.4). This would be accompanied by more equity participation by executives, continued scrutiny of executive salary levels by the media, and more compensation 'at risk'. Executives in Australia had received regular annual increases in compensation based on the cost-of-living, and market trends. Up to the 1960s, salary rises had also usually flowed on from the NWC increases. During the high inflation of the 1970s, salary enhancements were expected to preserve real income (p.13). Executive salary systems had largely been based on internal equity, external competitiveness, developing personal motivation and ease of administration (p.15). The main weakness of this approach had been its inward-looking nature (p.16).

The final source of data on salary systems is the CCH/AGSM survey (CCH, 1995) of 394 organisations in the public and private sectors. Table 6.8 shows the form of reward for middle and senior management.

Table 6.8
Forms of Reward for Middle and Senior Management, December, 1992 (N=394 organisations)

Form of Reward	Senior Management Per Cent	Middle Management Per Cent
Base Salary Only	46	61
Performance-based cash incentives/bonuses	44	32
Performance-based non-cash incentives/bonuses (e.g. travel)	10	7
Non-cash benefits as a component of salary package (e.g. housing loans, cars)	89	72
Employee share schemes	24	19

Source: Adapted from CCH(1995) Human Resource Management, Sydney, 1995, Table 7, p.5854, and correspondence with the survey author.

From Table 6.8 can be seen the Australian reliance on various kinds on incentives. The non-cash benefits appear high at first glance, but the car is a common employee benefit at these levels. As mentioned earlier, the 1992 CCH/AGSM survey (CCH, 1995) noted that job evaluation was used by 57 per cent of organisations, with 40 per cent of these stating that 'objectivity' was the main reason for its use, followed by 'allowing central group control' (26 per cent), 'allowing comparisons' (25 per cent), and 'simplifying decision making' (17 per cent) (p.5631).

The changing context for salary systems is likely in future to concentrate on (1) individual and team performance rather than on job worth, (2) results and contribution, (3) competitive total pay, (4) internal relativities based on a combination of accountability, contribution and knowledge, and (5) broader-band grade structures with broader pay zones (Cullen Egan Dell Ltd., 1995). As salary earners are award and trade union free, employers have more scope and freedom to design system for them, but there is ample evidence that the economic and legal external environments, in particular, can have a dramatic effect on salary practices.

Employee Benefits in Australia

The definition of an employee benefit is problematical, but to indicate the scale of benefits in Australia, the ABS definition (ABS, 1993a) is used, being

> concessions, allowances or other privileges received by or provided to employees in their main job in addition to wages or salary while the employees were working for their current employer (p. 23).

A national survey of employment benefits by the ABS in 1992 gave the percentages of the permanent and casual employees who received particular benefits, as shown in Table 6.9. The table demonstrates the four widely paid benefits for permanent staff: superannuation, holiday leave, sick leave and long service leave. Federal legislation was passed in 1992 with a view to extending superannuation to all employees not covered by superannuation via an award. Holiday and sick leave entitlements are in awards and state legislation. Long service leave is usually incorporated in state legislation and in the Metal Industry (Long Service Leave) Award, which forms the basis for all other federal long service leave awards (CCH, 1995:10,651). After these four, the distribution of benefits drops dramatically. Discount priced goods or services were available to 17.8 per cent of employees, and assistance with travel to work costs or the provision of a car applied to 17 per cent. Paid or subsidised telephone expenses are provided to 9 per cent of the workforce, but the rest of the table shows a limited range of provision, possibly due to the existence of the Fringe Benefits Tax (FBT). Unlike Singapore, employer-provided private health benefits are not common in Australia because of the Medicare (national health) system to which each employee contributes a percentage of salary. The ABS defines a casual employee as someone not entitled to holiday leave or sick leave (ABS, 1993a:23).

Table 6.9 shows that apart from discounted goods and services and subsidised transport, the entitlements for casual staff are usually considerably lower than those for permanent employees.

Table 6.9
Type of Benefit Received by Permanent and Casual Employees, Australia, August 1992

Type of Benefit Received	Permanent Employees Proportion Per Cent	Casual Employees Proportion Per Cent
Superannuation	90.5	40.5
Holiday leave	98.2	-
Sick leave	98.0	-
Long service leave	82.3	5.1
Goods or services	17.8	18.6
Transport	18.6	9.6
Telephone	9.0	6.3
Holiday expenses	4.6	0.7
Medical	4.0	0.6
Housing	3.3	2.7
Low-interest finance	3.7	0.4
Study leave	3.1	2.1
Shares	3.2	1.3
Union dues/professional association.	3.1	1.5
Electricity	2.2	3.0
Entertainment allowance	2.2	0.2
Club fees	1.7	0.5
Child-care/education expenses	0.3	0.1
No benefits	-	42.0

Source: Adapted from Table 9 of ABS (1993a) Employment Benefits Australia August 1992, Canberra, Catalogue No. 6334.0 ABS, p.12.
Note: The permanent employees are estimated to be 4,913,300, and the casuals, 1,262,800.

Under the Fringe Benefit Tax Assessment Act 1986, employers now have to pay tax on certain employee benefits provided to employees. FBT is payable whether a company is making profits or not. The three options for the employer are to pay the FBT in full, in part, or to cost it into the employee's package so that the employee bears the total cost. The most popular packaged benefits for senior executives, according to Cullen, Egan, Dell Ltd., in order of frequency are company cars (95 per cent), salary-sacrificed superannuation (80 per cent), home telephone expenses (46 per cent), private health insurance (37 per cent), second company car (32 per cent), and extra life insurance (32 per cent) (Ferguson & Lawrence, 1997:40).

Summing up, executive ranks have traditionally received more benefits than industrial employees, and part-time and casual staff have received fewer benefits than permanent employees. Legislation and award provisions provide minimum conditions for all employees, but employers can exceed these standards. While superannuation has been one of the main employee benefits alongside annual leave, sick leave and long service leave, its coverage of employees has also been very uneven, a fault which is now being rectified to encourage more savings in the economy and to provide for the greater numbers retiring in an ageing workforce.

A Comment on the External Environment and Australian Compensation

Like the previous chapter on Singapore, this section makes some preliminary observations about the possible influence of the external environment on the design of compensation systems of an MNE subsidiary in Australia.

Historical Influences on Compensation

As in Singapore, there are some principles of compensation design which have emerged historically and become entrenched into HRM practice. We noted that Aboriginal customs played no part in modern compensation in Australia, and that the arrival of the British and other settlers and subsequent industrialisation led to government involvement in compensation standards and the setting up of tribunals to determine awards. Although not discussed in the chapter, the main compensation principles in the Australian Public Service were adopted from the British Civil Service, namely, pay according to a salary classification for job duties and the skills required to do them, pay for length of service and maintenance of job relativities. In the private sector, non-award managerial staff appear to have been subject to informal systems and, since the 1970s, job-evaluated structures with performance bonuses in larger organisations. The award (wages) staff were mainly paid a rate for the job, with incentives being applied in some industries such as textiles and sheep shearing. Tribunals pushed the principle of equal pay for comparable work across an industry or occupation. Maintenance of relativities is also a feature of awards, especially between the trades and the unskilled workforce. Only recently have these bases been challenged by the desire to pay for skills obtained.

As the AWIRS research (Callus et al., 1991: 27) posits, we do not know whether MNEs import head office HRM practices into Australia on a major scale, but the industrial relations system would constrain the choice of system. One could hypothesise, therefore, that historically, MNE subsidiaries have had to operate within the existing industrial relations framework and design their compensation accordingly.

One could also suggest that past compensation practice in MNEs has probably tended to follow national design norms, particularly at the lower levels.

Legislation and MNE Compensation

We acknowledged that employers in Australia are subject to both state and federal legislation. The legislation that indirectly affects MNE compensation is that which defines the range and criteria of possible agreements that can be ratified by industrial tribunals and union recognition and rights. Income tax, Fringe Benefits Tax and superannuation legislation have a more direct impact. If an MNE is large, it is likely that unions will seek recognition and bargaining rights via the award system. The MNE then has the choice of paying its relevant employees on either state and/or federal industry awards or on enterprise agreements. The smaller MNE may not have union representation, but will still need to observe any minima in relevant awards for that industry or occupation. There is more flexibility with non-award staff, but federal and state laws between them set minimum standards for annual leave, long service leave, equal pay and minimum wage entitlements. The specific impact of state (as opposed to federal) legislation on the MNE, of course, depends on which state the MNE is located in. Legislation up to 1995 provided various compensation options for the MNE: (1) negotiation of a *company* agreement with a union above the award system safety net levels and registered with the AIRC, (2) negotiation of a series of individual *workplace* agreements with a union, again certified by the AIRC, (3) reaching an enterprise agreement under the states' (as opposed to the federal) systems, (4) completion of a non-union collective agreement under strict constraints, (5) concluding an informal collective agreement possibly with over-award payments or, finally, (6) negotiating individual employee contracts. Unless the MNE adopts individual contracts for all employees, the inevitable effect of the legislation and current decisions of the AIRC is that the MNE is likely to have at least two compensation systems within its boundaries. Of the total of the 1,987 Australian workplaces surveyed with more than 20 employees, only 25 per cent had only one compensation system in 1995 (Morehead et al., 1997:223).

The Economy and MNE Compensation

The operation of the economy has inevitably affected the level of compensation paid to employees in MNEs in Australia. In the recession of the early 1980s and early

1990s, it was not uncommon for organisations to restrict pay increases. What is not so clear is whether the economy affects the internal structure of compensation. One key goal of the decentralisation of compensation agreements is a closer link between pay and workplace productivity. The MNE, as argued before, cannot be isolated from the host nation labour market, which, in turn, is affected by the state of the economy. The economy does not directly affect the compensation design, but according to the state of the economy at the time, governments, the AIRC, other employers, and unions, will make policy decisions that will eventually influence the decisions of MNEs in establishing appropriate compensation levels and systems to maximise their performance.

The Unions and MNE Compensation

Union coverage in an MNE is dependent on its union recognition policy, the type of industry in which the MNE operates, and the unions that claim to be eligible to recruit members in the organisation. A registered union is required, as a condition of its registration, to specify its coverage of occupations and industries in its rules. The interpretation of these rules is sometimes the cause of jurisdictional and demarcation disputes between unions. The eligibility rules of a union define the type of employee for whom the union may obtain an award. As discussed before, the larger the workplace, the more likely it is to be unionised and to have high numbers of unions represented. (Callus et al., 1991). The MNE has a choice of belonging to an employer association or not to assist with industrial relations. If it is small, it may prefer an employer association to negotiate on its behalf. If it joins an employer association that is a party to a federal award, then any national industrial agreement will be binding on the MNE as well. We accepted that the AIRC decisions and principles, together with federal and state industrial relations legislation, set the context within which industrial relations at the workplace occur. Nevertheless, apart from the constraints of awards, legislation and union presence, the MNE has an almost unlimited choice in the style of industrial relations it wishes to foster in the workplace.

The Australian Industrial Relations Commission and MNE Compensation

Unlike the National Wages Council in Singapore, whose deliberations are private and whose recommendations are made to the Singaporean Government (which is party to the deliberations along with employers and unions), the main incomes policy principles in Australia have come from the decisions of the AIRC. As discussed earlier, the decisions are made as a result of submissions put to the AIRC by the government, employers and unions in an open tribunal setting, leaving the government with only indirect influence on the outcome. Nevertheless, the decisions on occupational and industrial awards and national wage principles of the AIRC have traditionally taken into account the state of the economy, and in times of crisis, the government has asked the AIRC to freeze award increases for a period. We have noted, however, that a majority of employers (including MNEs) will augment centrally negotiated agreements with over-award payments and performance pay schemes, and more recently, have negotiated separate workplace agreements in breaking free from awards. In addition, since non-award staff such as managers are not subject to award provisions, employers have a freer hand in determining their conditions of service within the legal parameters.

National Culture and MNE Compensation

It was concluded that the research on culture and work values in Australia is rather sparse. The culture was mainly European, with a number of sub-cultures, and with an acceptance of the capitalist system coupled with an expectation that the government would cater for the underprivileged. Trompenaars's (1994:18) research found that Australians were evenly divided on their perception of a company as a 'system designed to perform functions and tasks in an efficient way' or 'as a group of people working together'. However, Australians were shown to have a high Individualism dimension, although not as high as American and Canadian populations. Australians scored highest of all nations in suggesting that a leader should get a job done rather than being a father figure, preferred flatter organisations, and had the highest percentage of respondents of all countries who would not voluntarily help their boss to paint his/her house at the weekend (p.87).

On the Hofstede (1980) measures, it was pointed out that Australia was rated moderately low on Power Distance, moderately weak for Uncertainty Avoidance, moderately high for Masculinity and high on an Individualism ranking. The suggested compensation strategies of Hodgetts and Luthans (1993b) for host country managers were that with lower Power Distances, there should be smaller gaps between highest and lowest paid. As senior Australian executives are paid considerably less than their overseas counterparts, and as the award system was built on pay comparability principles, culture may play a part. Hodgetts and Luthans (1993b) also posit that with a moderately weak Uncertainty Avoidance score, compensation should be more closely linked to organisational performance. The 'capacity to pay' was a factor in early decisions of industrial tribunals, and on a macro level, the AIRC has considered the effect of pay rises on the economy. However, the tribunal system has awarded general industrial or occupational rises, and individual employers in an industry (including MNEs) have had to cope extra costs outside their control. Rises for executives have probably been more closely correlated with organisational performance. Despite high Individualism in Australian society, the award system has stressed equal compensation for similar occupations. Tribunals and unions have not heavily supported incentives, although there has been an increase in the use of performance-based pay. One suspects this may be mainly due to economic competition than to culture.

As noted earlier, there is a trend in Australia towards linking compensation to formal appraisal of individual performance, putting more compensation at risk and linking compensation to organisational performance. While it is tempting to postulate that these trends are the result of changing values in Australian society, the problem is to 'discover what it is that links societal and economic change to management practice' (Tyson, 1995:47). Compensation policies are obviously not pre-determined by the values of a society, but, as Tyson (1995) argues, are probably due rather to the interaction of the perceptions of management to what is changing, the variables at organisational level such as the market share and ideology of management, and the perceptions of the workforce 'deriving from group norms, concepts of justice, fairness and reciprocity' (p.48). At the wages level, in particular, it is also very difficult to ignore the institutional factors which impact on the employer. Perhaps, like Singapore, Australian values affecting compensation may be more clearly reflected in the small firm, where the industrial constraints are less.

Concluding Summary

This chapter has summarised the main features of the external environment in Australia that might influence the compensation systems of Australian or non-

Australian MNE subsidiaries located in Australia. It has particularly noted the differences in pay systems between managerial and non-managerial staff, or, more specifically, between those subject to the award system and those who are not. While legislation such as the Fringe Benefits Tax and the Superannuation Guarantee Levy has caused employers to review their compensation systems, employers can devise strategies either to become involved with unions and the industrial tribunal system or to attempt to opt out. Despite the regulation, employers have adopted flexible approaches to facilitate their compensation goals. The role of national culture in impacting on Australian compensation is more problematical. While some features of the compensation systems applying in Australia could arguably be explained by the Australian national culture, the legal and industrial relations institutions have been very influential in the past. The extent to which national culture impacts on the operations of these institutions is, of course, a possible area for future research.

CHAPTER SEVEN

THE OILCO COMPANIES

Oilco Australia

Company Background of Oilco Australia

Oilco Australia was a holding company for all Oilco companies in Australia. Its origins in Australia date back to the beginning of the century, but the present name was not registered until the 1920s. It became locally incorporated in the 1960s. Its interests covered upstream oil and gas, crude oil production/refining, exploration and sale of natural gas, coal mining and retailing of down stream oil. It divested itself of chemicals and metals divisions in the 1990s leaving exploration, gas, oil and coal as its main businesses. Oilco was wholly owned by two European parents, each of which owned parts of Oilco in Australia. Oilco Australia, in turn, had some wholly owned affiliates and joint ventures. Its labour force was just under 5,500 by the beginning of 1995. The refinery used for comparison began operating in the 1950s and in 1995 employed about 600 employees. The terminal installation opened at the start of the century and had a staff of about 350 in 1995. The head office was based in Melbourne and contained a number of operating departments and corporate employees, numbering about 1000. The group parent multinational Oilco (based in Europe) operated in more than 100 nations with more than 130,000 employees, of whom more than 5,000 were expatriates working outside their home country.

Organisation of Oilco Australia

Oilco Australia was a separate operating company of the corporate Oilco MNE. It had a board consisting of a chairperson/CEO and four executive directors (including a finance and a personnel director), and one non-executive director. Reporting to them were four general managers, the finance controller, the corporate treasurer, and company secretary. The manager of the refinery for this study reported to a general manager; the terminal manager reported to a head office marketing manager who, in turn, reported to a director. At the end of 1982, Oilco Australia had 5807 employees. By the conclusion of 1991, this had risen to 6965 staff, but through 'downsizing' and 'delayering' in the early 1990s, had declined to 5431 by the close of 1994. The company had between seven and eight reporting levels from the lowest employee to the chairperson although there was a distinction between reporting and salary levels. Prior to negotiating enterprise agreements, Oilco reduced the number of reporting levels in its business units, made greater use of contractors, and established the team approach on a wider scale especially in refineries. By the end of 1995, there were 14 different salary levels from the chairperson to the lowest clerical/administrative person paid on the non-award salary structure. According to a manager interviewed,

> The company was originally perceived by employees as a 'cradle to grave' organisation and most employees joined with a view to staying for a long time. However, in the last 10 years, the turnover has increased with downsizing and employees are now moving more frequently between jobs.

Production Technology of Oilco Australia

The refinery processed crude oil feedstock which arrived by pipeline and sea from Australian, Middle East and South East Asian fields. Refining starts with primary distillation and then progresses to middle distillation and secondary processing. The occupational composition therefore included chemists, accountants, engineers, instrument mechanics, fitters, electricians, boilermakers, riggers, industrial relations and health specialists, training personnel, and refinery operators. The products from the refinery were sent by pipelines to the terminal which, in turn, resold them to commercial and industrial users, to service stations and petrol distributors. Products were also sent by road and rail to other Australian destinations, and by ship to overseas markets. There was large capital investment across the company, particularly in upstream activities, joint ventures, new products, processing technology and computerised instrumentation for monitoring. Recent innovations were the further automation of blending systems and vehicle on-board computers.

Mission and Objectives of Oilco Australia

Oilco Australia did not have a corporate publicised mission or vision statement, but did have general objectives, stated in its annual reports, which were 'to engage safely, efficiently, profitably and responsibly in the oil, gas ... and coal businesses', to seek 'a high standard of performance' and to 'maintain a long-term position in these business sectors'. It specified four areas of responsibility: to shareholders, customers, employees, and to society. Its statement of general business principles also supported a market economy, and the voluntary codes of conduct for MNEs, namely the OECD

Declaration and Guidelines for International Investment and Multinational Enterprises and the ILO Tripartite Declaration of Principles. The company had a strong corporate philosophy and clear business targets which 'cascaded' down into the business groups. A Corporate Planning Group coordinated sector business plans for the corporate business plan. This operated on cycles, and the strategy appraisal review was for 20 years ahead. There was also a country plan for five years ahead plus the twelve-month operating plan. This applied world-wide and was part of the parent MNE Oilco culture.

HRM/IR Organisation of Oilco Australia

The human resource management function was headed by an executive director and had formal personnel policy manuals which covered all locations. The policies covered the full range of HRM/IR practices including compensation and job evaluation. According to a manager interviewed,

> The [HRM] policies are a set of guidelines on things like leave, cars and study, but they are not a set of black and white rules, as line managers have flexibility to move within these — it is their money.

Oilco Australia tried to get personnel policy recognised as a line function, owned by the line management. Each business group had its own business plan and the role of HRM was to support this. A team of personnel development managers (PDMs) assisted in the interpretation of policy, but the outcome was really what the line manager wanted to do. Some personnel policies were unique to a location although most personnel policies, especially those relating to compensation, were very centralised in the company.

The HRM director had health and safety advisers, employee relations, information technology, corporate services, and a team of personnel development managers (PDMs) reporting to him. The PDMs provided the HRM expertise for business groups and incorporated some state HRM advisers. The corporate head office PDM was the senior PDM, and although he/she did not supervise the other PDMs, the brief was to coordinate their work, particularly the career planning of senior staff and those with potential for senior appointments. These were the top 50–60 jobs in the company. The PDMs' role was to support the line and to facilitate career and succession planning. There was no corporate training function, as this was handled by external consultants and was recognised as a line function. There were, however, training officers in the refinery for technical training. The refinery had two personnel staff who were advisers to the line management in handling personnel issues and grievances before they became disputes. These staff worked closely with the corporate employee relations staff.

The Employee Relations function (reporting to the Personnel Director) was comprised of four sub-functions: (1) a business performance consultancy, (2) a head office administrative issues unit, (3) a personnel services group which covered award and non-award head office staff recruitment, compensation reviews and surveys for 2000 employees, the management of expatriates, and human resources planning and information systems, and (4) a management and graduate recruitment unit. The industrial relations function devised the compensation strategy mainly for the unionised workforce in refineries, terminals, mines and airports. Reporting to the Personnel Director, it had the closest links with full-time union officials and the AIRC, and included a team of senior IR specialists who were close to the manufacturing function.

Decisions regarding changes to the salary system came from the Remuneration Manager with a recommendation to the Personnel Director and ultimately to the Chairperson of Oilco Australia. Approval from the European headquarters of the MNE was not necessary. Decisions regarding the policy toward award paid employees came from the IR specialists who liaised with the Remuneration Manager at corporate head office. With enterprise agreements, bargaining occurred at site level between management and employee representatives, but the company negotiators were guided by the head office specialists particularly before outcomes were finalised.

Unionisation of Oilco Australia

Management and senior administrative staff were not unionised in Oilco Australia. Some secretarial and clerical staff belonged to the Australian Municipal, Administrative, Clerical and Services Union (AMACSU) (formerly the Federated Clerks Union[FCU]). The main union presence in the head office was the AMACSU. All other non-salaried employees (non-classified) belonged to unions as a condition of their employment. The main unions represented at the refinery and the terminal were the AWU–FIMEE Amalgamated Union[1], the CEEEIPPASUA[2], and the Automotive, Food, Metals and Engineering Union. The operators at the refinery belonged to the AWU–FIMEE, and there were a few drivers who belonged to the Transport Workers' Union of Australia (TWU).

Award negotiations in the oil industry have traditionally been handled between trade unions, the Australian Council of Trade Unions (ACTU), the oil industry companies working together, and Oilco employee relations staff. This system was replaced with local enterprise agreements that resulted in more negotiations between managers and employee representatives. The refinery had its own enterprise agreements for operators and trades employees, as opposed to federal oil industry agreements. Oilco will eventually have a number of individual enterprise agreements to manage, but the strategic considerations were coordinated by the head office industrial relations staff. The main aim of the enterprise agreements was to obtain flexibility and multi-skilling and to have an 'all salaried workforce' with 'all inclusive salaries' for refinery and terminal staffs. The terminal operated a 100 per cent union membership agreement[3] with the same trade unions as for the refinery except for a greater membership of drivers in the TWU, and the operators' membership of the National Union of Storeworkers, Packers, Rubber and Allied Workers (NUW). An Oilco company-wide agreement was negotiated for all terminals in the company.

Industrial Staff Compensation in Oilco Australia

Introduction

As one interviewed manager put it:

> I think you can divide industrial relations in the Australian oil industry into three main phases: pre-1974 was the era of chaos; 1974–90 was the era of centralism, and post-1990 came the era of enterprise agreements.

Prior to 1974, compensation for the industrial employees was determined by a patchwork of oil industry-wide awards and agreements. There was a mixture of company awards, industry agreements and single-site agreements. The various approaches allowed unions to push for the flow-on of any new rate or feature to other oil companies. In the 1970s, oil companies worked together to centralise

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1 Australian Workers' Union–Federation of Industrial, Manufacturing and Engineering Employees

2 Communications, Electrical, Electronic, Energy, Information, Postal, Plumbing and Allied Services Union of Australia)

3 Since 1996, legislation has made closed shops illegal in Australia.

negotiations, and from the late 1970s to the 1980s, sought uniform rates and conditions across the industry. It was a device to meet the requirements of AIRC principles, but created rigidities when individual oil companies tried to change work practices, technology, products and culture. All oil companies were respondents to the same eight principal federal oil company awards negotiated by the Central Forum of oil companies, the ACTU and national union representatives.

With the decentralisation of industrial relations in Australia, to overcome the inflexibilities, discussions began in the late 1980s to move to company-based award compensation systems. The Oil Industry Forum met in May 1991 and agreed that the industry should progress to company awards for each refinery, company awards for terminals, a restructured Transport Workers' Award, company awards for clerical staff and retain paid rates awards; superannuation was left as an individual company matter. In the change to enterprise agreements, Oilco adopted a dual strategy. The head office specialists had to design the appropriate frameworks for the change ('the top–down approach') whereas the line management at local level had to sell the concepts of linking pay to efficiency and productivity at the enterprise level ('the bottom–up approach').

Operators' Compensation in Oilco Australia

Beginning the story in 1972, the refinery operators of Oilco had their own award with the company. The award had nine categories of operator, but did not define the way an employee moved from one grade to the next. The top rate was A$108.60 per week, and the lowest A$80.60 per week. Another increase of about $5 per week was given 12 months later. Various allowances were provided for cleaning boilers or flues, working in confined spaces, dirty work, heights, hot places and wet places. Hours of work were 40 per week, and shifts were not to exceed 8 hours. Shift allowances ranged form 15 to 50 per cent, and annual leave was 28 days. In 1976, a length of service allowance was introduced for service exceeding 6 months and 2 and 5 years. Regular rises were given throughout the 1970s following the National Wage Cases, but the wage structure for operators in the oil industry was revised in 1980 in the federal Australian Workers' Union (AWU) (Oil Companies) Award (AIRC Print E6843). This agreement was part of the process of having a totally integrated national wage structure for all oil companies. In this, operators were divided into three categories: Head Operator (5 grades), Senior Operator (4 grades) and Operator (6 grades). The work for each grade for each oil company was defined in the award and the principle of a rate for the job applied. The AWU (Oil Companies) Award with its three operator classifications was revised in line with NWC wage increases in the early 1980s (see AIRC Prints E8258, E8259 and F1263).

Minor revisions to the AWU (Oil Companies) Award were made from time to time, but in 1986, the difficulty of applying the three-tiered operator structure across all companies in the oil industry surfaced in the AIRC (AIRC Print G3115). Companies were grading work differently: some were grading the work itself, others were awarding higher grades to individuals based on their job knowledge. A joint working party under the auspices of the ACTU studied all the operator jobs and the gradings of the majority were agreed. New definitions for operators were confirmed, with the refinery of Oilco being used as a benchmark. The AIRC approved the new structure, which resulted in some operators being upgraded and others downgraded. The pay rates for the operators were adjusted in line with the National Wage Cases increases from 1987–91 (AIRC Prints G6457, G8215, H2234, H8843, H8463, K0667 and G6917). Definitions of the operators' jobs were revised because of changing technology, but the three-tiered structure of Head Operator, Senior Operator and Operator was preserved.

In January 1992, after much negotiation, Oilco agreed to a new two-year enterprise agreement with the unions under the patronage of the AIRC for the refinery selected for this study. The agreement had some unique aspects relating to the refinery, but also drew on industry standards for conditions such length of the working week. Operator and firefighting jobs were reorganised, and production employees were classified by the technical, process, business and team competencies they possessed. In other words, pay for skill had replaced pay for the job, and operators had to work in any job for which they were qualified. The wage structure had six operator categories, the competencies being specified for each, plus two levels of General Service Operators and a trainee's rate. Progression to at least level 3 was compulsory, but advancement in the structure beyond that was voluntary (i.e. taking on further training was optional). The production function was reorganised on a team basis, with the shift roles being team leader, panel operator and field operator; this was done to gain flexibility and reduce overtime. There was also a suggestion in the award that operators undertake some engineering maintenance and laboratory testing. Employee compensation was changed to a monthly pay system in which the pay was transferred into their bank accounts through electronic funds transfer. This award, with rates adjusted annually, applied at the end of 1995. The operators had a choice of taking the overall increase given to staff (non-award) employees as a result of surveys and economic indicators, or negotiating their own rise with the company.

Engineering Employees' Compensation in Oilco Australia

Before the advent of enterprise agreements, the engineering trades maintenance employees operated under the oil industry federal award (Engineering [Oil Companies] Award) (AIRC Print H8977) at Oilco's refinery and terminal. The basis for compensation was rate for the job plus an allowance for length of service. Like the operators, the unions were eager to have an award that covered the entire oil industry in order to get consistency of wage rates. This award continued until 1988, when the AIRC National Wage restructuring principles caused a change in strategy.

By August 1989, a new Engineering (Oil Companies) Award 1988 was ratified by the AIRC (AIRC Print H8977). Binding on all the oil companies, the award defined the various trade positions and the qualifications required to be termed 'special class' in trades which were paid more highly. Additional payments were granted for post-trade certificates and length of service. As with the operators, Oilco had considerably redesigned trades work in order to justify wage increases under the principles of the AIRC, the Commission recognising in 1992 that individual oil company awards were the trend for the future.

A separate Oilco award for the engineering workers at the refinery was subsequently ratified by the AIRC in August 1993. In that award, engineering posts were divided into five career streams: mechanical fitting, boilermaking, instrumentation, electrical and 'stars' (amalgamated non-trades). Staff were paid on five levels according to their qualifications and demonstrated competencies. The award expressed in great detail the duties for each category, together with the necessary technical certificates, completed courses and assessed competencies for each duty. It also documented team coordination payments for duties for the teams such as scheduling priorities, work rosters, running safety meetings and handling team difficulties. The heart of the new award was flexibility of work arrangements, incentives to develop further specific skills, rewarding responsibility for team performance and allowing individuals a choice of career options within their base trade. Progression through the classification structure depended on being assessed as competent to perform at the higher level. The pay rates were subsequently updated in 1995 and 12-hour continuous shifts were being trialled up to January 1996. The 1995 award was in force in 1996.

Laboratory, Transport, Stores and Packing Personnel Compensation

The laboratory employees at the refinery originally had their compensation included in the general Australian Workers' Union (Oil Companies) Award and later in a Laboratory Employees' (Oil Companies) Award (AIRC Print G1006). The classifications, in ascending order, were laboratory trainee, assistant, analyst and officer. The pay was expressed as a weekly sum plus one allowance based on length of service and another for staff supervision duties. With the introduction of enterprise agreements, Oilco redesigned jobs in the refinery's laboratory operations with a view to increasing flexibility and efficiency, and providing a better career path. The MNE had a new Oilco Refinery Laboratory Employees' Award ratified in 1992. The new award placed the laboratory staff on to the monthly payroll and divided the work into routine and development functions. Jobs were placed into seven levels, including the trainee role, with fixed annual salaries. Duties and qualifications for each level were specified. By 1995, the annual revision of pay rates was being prescribed in the overall refinery award

By contrast, since at least 1980, drivers and other transport workers in the Oilco Australia refinery and the terminal have been covered by a separate national agreement in the oil industry, namely the Transport Workers' (Oil Companies) Award (AIRC Print E6358). The philosophy of the wage system was pay for the job, with different rates for different types of vehicle driven. For example, the base rate for a driver at one refinery was A$308.10 per week for a vehicle not exceeding 1.25 tonnes capacity. This was raised to A$339.40 per week if the vehicle had between 3 and 6 tonnes capacity. Various allowances were also added for the type of product being carried by the vehicle. Apart from the rate for the job, extra compensation was provided for length of service — the stepped duration for recognition being 6 months to 2 years, 2 to 3 years, 3 to 5 years, and over 5 years — the standard clause for the industry. This transport structure remained unchanged through the 1980s, only the rates being revised in line with NWC increases (see AIRC Prints G5957, G8920, H2881 and H8839).

In the early 1990s, compensation rates for the industry were again raised and approved by the AIRC; the use of the job as the basis for pay and length of service allowances were retained (see AIRC Prints K1925 and J7611). However, the 1992 Award (AIRC Print L0306) marked a change in approach by the AIRC because it omitted wage rates. The rates had to be negotiated at the enterprise level in certified agreements, but these agreements had to apply in conjunction with the Transport Workers' (Oil Companies) Award. The AIRC was thus reluctant to grant increases in an award that applied to the whole oil industry, and the adoption of local certified agreements was a strategy to get around this. This recognised that the degree of decentralisation of wage setting that was occurring.

The position as at the end of 1995 was that the Transport Workers (Oil Companies) Award was divided into two parts — part 1 applying to drivers, and part 2 to transport workers working at airports. Enterprise agreements applied to each part because these areas of operation were separate businesses. Since 1992, the industry agreement had been supplemented by two Oilco certified agreements which incorporated the wage rates, one for airport operations and the other for fleet driving for refineries and terminals. The Oilco Fleet Operations Agreement adopted a 10-classification structure that absorbed many of the previous allowances paid to drivers, eliminated pay for length of service and combined several rates. Drivers were paid according to the type of vehicle they drove — ranging from forklift driving to triple road trains — and were thus skill-based to some extent. The parties to the agreement acknowledged the need for flexibility and for drivers to be trained to perform minor maintenance. Each terminal would have small local agreements to this end. The preservation of the remaining oil industry award for all transport workers was due to the attitude of the TWU, the fact that each oil company operated out of each other's terminals, and the existence of joint ventures at airports. This made it more appropriate for Oilco to stay with the existing award.

Finally, the terminal operating staff such as store persons, packers, blenders and plant operators were covered by the National Union of Storeworkers, Packers, Rubber and Allied Workers (NUW) and were previously paid under the provisions of the Storemen and Packers (Oil Companies) Award, which applied to all oil companies. A new separate Oilco company one-year award was ratified by the AIRC in May 1992, the basis of which was pay for the job at a fixed base rate shown as a weekly sum. An extra allowance was granted for length of service, with the same steps of duration as were used in other oil awards. Additional payments were available when a store person, packer or blender had supervisory responsibilities.

By August 1993, Oilco Australia had negotiated its own agreement for terminal operators and store people based on skill acquisition and a flexible approach to work at the enterprise. The new production award applied to all terminals; it classified terminal operator work into nine levels including a trainee grade, with a fixed pay rate for each level. There was no allowance for length of service. Detailed definitions of the work and competencies were included for each grade. New operators were recruited at Level 1 with the expectation that they would be prepared to accept training to develop skills to progress to at least Level 3. The skills included communication, minor maintenance, and working in a team. By Level 4, the operator should have attained some supervisory and advanced specialist skills, and beyond Level 5, appropriate trade or post-trade competencies. The oil industry companies and unions agreed in 1991 that there would be separate company awards for terminals. In addition, National Skills and Accreditation Standards for Maintenance and Laboratory Employees would be introduced.

Clerical and Administrative Compensation in Oilco Australia

Starting our discussion in 1978, the compensation for clerical staff in Oilco was determined by the federal Clerks' (Oil Companies) Award (AIRC Print D7314), the Federated Clerks Union (FCU) being the main union for the employees. The FCU, through amalgamation, is now called the Australian Municipal, Administrative, Clerical and Services Union (AMACSU). The compensation structure in 1980 was job-based, with four grades and annual increments for each year of service, the maximum number of increments varying with the grade (AIRC Print E7000). All clerical employees were graded on work performed, with the grading decided by

Oilco. Proposals for national increases in pay in the oil industry came from the Central Forum of unions, the ACTU and employers, and were then assessed and approved by the AIRC. The four-grade structure continued through the 1980s in the oil industry, salary levels being raised from time to time. However, Oilco spent two years redesigning the clerical work in the refinery to get staff to learn additional skills and take on extra responsibility.

In March 1991, the FCU (AMACSU) sought ratification by the AIRC of a local refinery agreement with Oilco, and an Interim Refinery Administrative award was approved by the AIRC. The new award allowed Oilco to assign clerical staff to one of six classifications, the basis of the new structure being flexibility. The accountabilities for each level were set out in the award.

A substantive clerical and administrative award for the refinery was approved by the AIRC in August 1993 for a period of 12 months to be applied in conjunction with the Clerks' (Oil Companies) Award, 1988. It revised the pay rates for six classifications and also revised the entry level classification. Clerical and administrative career streams were defined for each aspect of administrative work such as payroll, accounts and product supply. Under this award, there was no provision for performance bonuses for clerical staff, or for differentiated pay rates for people on the same classification. Salaries were set fixed points for each grade, with no over-award pay or incentives. Several allowances were absorbed into the basic rate and hours of work remained at 35 per week, in line with the rest of the oil industry. The rates of the new award were revised regularly in the form of a certified agreement.

Clerical and administrative staff at the terminal selected for this study were paid under the Clerks' (Oil Companies) Award, with its four-grade structure, annual increments for length of service and rates for age for staff under 21. The rates in this award were regularly revised in line with NWC increases. In the early 1990s, these employees were transferred to 'staff' conditions after their jobs were evaluated according to the Hay job evaluation system. The matter was still before the AIRC on the cut-off date for the study (August, 1995).

At head office, the clerical and administrative staff were paid under the four-grade Clerks' (Oil Companies) Award. However, during the early 1990s, their jobs were re-evaluated using a nine-factor, consultancy-designed, points rating system. From this exercise, a six-grade structure (plus a trainee grade) was developed. Junior rates were abolished. The range of work was the same as for the four-level structure, so the differential between job levels was slightly smaller. This adjusted structure was incorporated into a (federal) head office clerical award in 1993; the top clerical grades overlapped with the lower levels of the 'classified' (Hay) graduate/managerial staff salary structure. The basis of compensation was therefore the size of the job as evaluated. Pay for age was no longer used, as age discrimination legislation was becoming common at state levels. No extra pay was given for skills, qualifications or performance, but performance was appraised annually. Pay was not linked to this performance review; neither was there any allowance for length of service — a previous feature of oil industry awards. Pay levels were established in the marketplace through salary surveys to ensure that the overall salaries were in line with competitors. A recent change has been the movement of some clerical and administrative staffs from the head office award to the Hay-evaluated staff structure as part of the long-term strategy of moving all employees to staff status. The link of pay to performance in this system is discussed in the next section.

The ultimate goal for refinery compensation is to have one combined award that includes common on-site conditions for the operators, engineers and clerks. Similarly, Oilco would have preferred a common award for all the terminals — one that incorporated the production, engineering and clerical employees. For the moment, the transport workers will stay as a special case.

Managerial Compensation in Oilco Australia

Oilco Australia had a written policy for compensation of managerial and executive staff at the head office, refinery and terminal which was distributed to employees. The policy stated that salaries would be reviewed annually, would remain competitive at a specified percentile of market rates, would have increases based on performance, would recognise and reward promotion, and would provide flexibility within each range. Employees nominated as 'classified' staff had their jobs evaluated according to the Hay System, and then had them placed in a job group with a corresponding salary range. Oilco had a panel of managers who were trained as evaluators with considerable experience in job evaluation. This system had been used in Oilco Australia for more than 20 years. The system recognised both the position of employees in their current job group salary range and their performance during the previous year. According to a manager interviewed, over the years the Hay system had been adapted slightly, with broader bands being used, an extra grade at the bottom being applied, and some of Oilco's own criteria being used.

Each salary range for a job group had a mid-point (established through market surveys and fixed by head office staff) and a margin up to a fixed percentage each side of this (not disclosed here by request). The mid-point was used for comparison with market rates. Salary ranges were increased annually in April of each year to take into account projected market movements for the following 12 months. Because this was done at the commencement of the 12 month cycle (and not at the end), the salary rates were high at the beginning of the review period and were designed to remain competitive for the whole period. Each employee was given a performance rating that generated a certain salary percentage within the range.

The structure was divided into two. At the top, there were four-letter category jobs — D being the highest (the chairperson of the company), C being for directors and A being the lowest — which were not evaluated, but which had packages finally agreed at the European Oilco headquarters on advice from the Oilco Australia compensation specialists. Beneath the letter categories were ten number groups which were job evaluated, number 1 being the highest and 10 being the lowest. Clerical assistants were usually assessed at grade 10, first line supervision at 7, senior management at 3, and business unit management and senior specialists at 1. The Remuneration Manager continued:

> Although the Hay system has been slightly modified in Australia, with an extra grade at the bottom, Australia and Singapore would be using the same scheme. The reason for this is to preserve mobility laterally, whatever country the employee is working in.

The structure of 1 to 10 job groups had a salary plus a hierarchy of defined employee benefits. At certain levels, a car and/or telephone and/or club membership fees would be provided. There was limited flexibility within the range of benefits. For the managers in the top letter categories, a package of benefits could be selected within a total pre-determined cost. The changes to the Fringe Benefits Tax affected the cost to the company of this scheme. There was no structured bonus scheme for the lettered and numbered categories until recently. However, the Remuneration Manager noted that:

> Managers can give 'one-off' bonuses to an employee who has done an outstanding job, but these are seldom given and might apply to only 5 people in 1,000.

Local directors had packages similar to those of senior management. Their incomes were recorded in the company's Australian annual report to conform with legislation on disclosure. According to a manager interviewed,

> Expatriates working in [Oilco Australia] notionally become employees of the [Oilco's] head office in Europe. Expatriate policy is centrally determined and covers education, housing, insurance and relocation as well as pay. Expatriate packages are uniform and are built up from a basic job-evaluated grade, with the home salary and exchange rate being taken into account and the host country allowances added to this. You can therefore get two Australians working in two different countries receiving very different packages. You can get two expats working in Australia on two different pay packages. One element in the package is a uniform incentive to encourage the expatriate to move.

Each of the major operating companies of the MNE administered expatriate packages in its respective nation using these standard principles and taking different tax laws into account. Expatriate packages were usually monitored by the MNE European headquarters.

During 1994 and 1995, Oilco Australia reviewed its classified staff compensation system and introduced further employee benefits for certain grades of staff and a bonus scheme for employees, determined by a combination of (1) the company's success against several performance indicators, and (2) an individual's performance rating by his/her supervisor.

Employee Benefits in Oilco Australia

In Oilco Australia, some employee benefits were common to all grades of staff, and others were unique to the grade of employee. All staff were likely to receive the following:

- Access to company credit union
- Annual leave loading
- Compassionate leave
- Discount priced petrol for private use
- Educational expenses
- Leave for public holidays
- Long service awards
- Long service leave
- Long-term illness pay

- Maternity leave
- Paternity leave
- Reimbursement for company required travel
- Reimbursement of business entertainment
- Retrenchment benefit
- Sick leave
- Superannuation
- Unpaid leave (if approved).

Despite the previous union strategy to get consistency of pay and conditions in the industry, the oil industry agreed with the unions in 1991 that superannuation should be handled separately in each company. Uniforms were provided for industrial employees, and they and clerical staff received a meal allowance when necessary, and acting allowances for serving in a temporary higher capacity. Provision of cars, loans for investment purposes, salary sacrificing for car leases and for superannuation payments were also available for certain grades. The employee benefits by category are shown in Table 7.1. Under the refinery award, operators and engineers had provisions which covered overtime, accident pay, rest periods before and after overtime, call-back pay, training and development leave, shift allowances, protective clothing and rostered days off. Administrative staff in the refinery had award clauses that covered optional afternoon rest breaks, allowances, overtime, shift work and training and development.

Relationship of Oilco Australia to Corporate Head Office

Oilco Australia was a local operating company that was held fully accountable for its activities, with the European head office providing advice and services where necessary. The local chairperson had the right to reject advice. The challenge for Oilco Australia was to remain competitive in its own local environment. Nevertheless, some activities were integrated internationally — such as new areas for exploration and the sharing of technology. Management was encouraged to 'think globally and act locally'.

The interest in the Oilco Australia compensation systems by the corporate European Head Office varied according to the grade of staff. European head office appointed, appraised and decided on the compensation for the operating companies' CEOs. According to a manager interviewed, the international head office did not have strict day-to-day control of the Australian company. He went on:

Table 7.1

Employee Benefits Profile for Oilco Australia as at 1995

	Industrial/ Blue Collar Unskilled	Skilled	Clerical/ Admin	Sales/ Technical	Professional/ Management	Board
Acting allowance	✓(1)	✓(1)	✓(1)			
Annual leave	✓	✓	✓	✓	✓	✓
Attendance allowance						
Business entertainment expenses	✓	✓	✓	✓	✓	✓
Cellular phones	(2)	(2)	(2)	(2)	(2)	(2)
Co-operative shares	✓(3)	✓(3)	✓(3)	✓(3)	✓(3)	✓(3)
Compassionate leave	✓	✓	✓	✓	✓	✓
Death benefit	✓	✓	✓	✓	✓	✓
Dental treatment						
Early retirement schemes	✓	✓	✓	✓	✓	✓
External/social recreational club membership				✓	✓	✓
Festive loan/advance						
Fixed monthly transport allowance						
Free medical treatment/medicine						
Funeral leave benefit						
Hospital ward benefit						
Housing loan						
Housing renovation loan						
Laundry benefit	✓(4)	✓(4)				
Life insurance						
Long service award	✓(5)	✓(5)	✓(5)	✓(5)	✓(5)	✓(5)
Long-term illness	✓	✓	✓	✓	✓	✓
Machine allowance						
Marriage leave						
Maternity leave	✓	✓	✓	✓	✓	✓
Meal allowance	✓	✓	✓			
Medically board-out benefit	✓	✓	✓	✓	✓	✓
Other loans					✓	✓
Paternity leave	✓	✓	✓	✓	✓	✓
Provision of car				✓(6)	✓(6)	✓
Reimbursement for use own car on company business	✓	✓	✓	✓	✓	✓
Retrenchment benefit	✓	✓	✓	✓	✓	✓
Service benefit						
Shift allowance	✓	✓	✓		✓ (7)	
Sick leave	✓	✓	✓	✓	✓	✓
Specialist surgical fee						
Study leave benefit	✓	✓	✓	✓	✓	
Superannuation (Australia)	✓	✓	✓	✓	✓	✓
Transport benefit/allowance/ reimbursement	✓	✓	✓	✓	✓	✓
Uniform	✓	✓				
Union day leave						
Union education leave	✓(8)	✓(8)	✓(8)			
Unpaid leave available	✓	✓	✓	✓	✓	✓
Voluntary resignation benefit	✓ (9)	✓ (9)	✓ (9)	✓ (9)	✓ (9)	✓ (9)

Notes:

(1) Long-term absence only. (2) Depends on job. (3) Credit Union. (4) Uniforms. (5) 10, 25 and 35 years.
(6) Some Sales Staff and Senior Management only. (7) Computing Staff only. (8) Negotiable.
(9) Superannuation contributions.

> We tell the overseas office what we have done. We will send [Oilco Australia] handbooks and policies when they are prepared, but we are our own boss for personnel policies. However, we are not a completely free operation.

Once a year, the Oilco corporate head office would send representatives to Australia for several days to appraise the business performance of the previous year and to consider the business strategies and plans, objectives, 'yard sticks', major capital expenditure and proposed acquisitions and divestments. Industrial relations strategy plans would be discussed with the headquarters' representatives, but not the detailed operational matters. Career planning for senior employees and the international management skill pool were coordinated from Europe. Performance of professional staff above a certain level and current expatriates was monitored there as well.

On head office involvement, the Remuneration Manager said:

> While international head office probably won't intervene directly in enterprise bargaining, an [Oilco] subsidiary which decided not to use the Hay system might generate more attention. That's because use of Hay enables the head office to compare jobs internationally across businesses and to judge the size of a job for promotion and development purposes. However, there is no communication between subsidiaries on job points, although there is communication between European headquarters on the conditions and a regrading of a 'letter' category (top) job. We could move from Hay if we wanted to, and perhaps use Wyatt, but it is convenient because it is used world-wide. It's a satisfactory basis for company job sizes.

The Profile of Oilco Australia Compensation

For the head office, refinery and terminal of Oilco Australia, 11 different compensation systems can be identified, but for the purposes of detailed analysis and comparison with Oilco Singapore, three key occupational groups are selected. Tables 7.2 – 7.4 show Oilco Australia's profile for the compensation of refinery operating, refinery clerical, and managerial employees using the Gomez-Mejia and Balkin (1992) Algorithmic and Experiential compensation patterns. In general, the operator compensation had more Algorithmic features than Experiential ones, but the future goals of management were to move it more towards the Experiential end of the continuum. Again the clerical and administrative compensation was mixture of Algorithmic and Experiential elements, with the emphasis being toward the former. A similar conclusion could be made for the transport workers and store persons, packers and blenders, for whom the rate for the job and payment for length of service were the norm, with pay for skills being only recently achieved for the terminal operators.

Table 7.2

Summary Profile of Algorithmic (A) and Experiential (E)

Compensation Patterns of Operating Staff Compensation in the Oilco Australia and Oilco Singapore Refinery[1] as at 1995

	Oilco Australia Refinery Operating Staff		**Oilco Singapore Refinery Operating Staff**	
	Compensation Feature	**A or E**	**Compensation Feature**	**A or E**
(a) Basis for Pay				
Unit of analysis	Mainly skills	E	Job evaluation	A
Criteria for pay increases	Skill progression plus annual review of structure	A	Tenure - annual increments	A
Level of performance measurement	Not applicable	-	Not applicable	-
Time orientation	Short-term	A	Short-term (annual)	A
Risk sharing	Low	A	High	E
Strategic focus	Not applicable	-	Not applicable	-
Equity concern	Internal dominant, but reviewed annually	A/E	Internal, but reviewed regularly	A/E
Reward distribution	Special benefits to executives	A	Special benefits for executives	A
Type of control	Not applicable	-	Not applicable	-
(b) Design Issues				
Salary market policy	Not known	-	Above average	A
Benefits market policy	Not known	-	Above average	A
Incentives in pay mix	None	A	High	E
Total compensation	Low future potential with higher immediate payoff	A	Low future potential with higher immediate payoffs	A
Reinforcement schedule	Normally annual pay rises	A	Annual	A
Reward emphasis	Pecuniary	E[2]	Pecuniary	E
(c) Administrative Framework				
Decision making	Decentralised to refinery	E	Centralised	A
Pay disclosure	High (public award)	E	High (public)	E
Governance structure	Union involvement	E	Union participation	E
Nature of pay policies	Carefully documented	A	Carefully documented	A
	TOTAL	A = 8 E = 5 A/E = 1 N/A=2[3] U/K=3[4]	**TOTAL**	A = 10 E = 5 A/E =1 N/A=3[3]

Notes:

(1) The refinery is selected as one example for comparison.

(2) It could be argued that work designed on group basis had intrinsic reward elements.(3)

(3) N/A=Not applicable

(4) U/K= Unknown

Table 7.3

Summary Profile of Algorithmic (A) and Experiential (E) Compensation Patterns of Clerical Staff Compensation in the Oilco Australia and Oilco Singapore Refinery as at 1995

	Oilco Australia Refinery Clerical Staff		Oilco Singapore Refinery Clerical Staff	
	Compensation Feature	**A or E**	**Compensation Feature**	**A or E**
(a) Basis for Pay				
Unit of analysis	Job	A[(1)]	Job evaluation	A
Criteria for pay increases	Annual overall review	A	Tenure-annual increments	A
Level of performance measurement	Not applicable	-	Not applicable	-
Time orientation	Short-term	A	Short-term (annual)	A
Risk sharing	Low	A	High	E
Strategic focus	Not applicable	-	Not applicable	-
Equity concern	Internal, but reviewed annually	A/E	Internal, but reviewed regularly	A/E
Reward distribution	Special benefits for executives	A	Special benefits to executives	A
Type of control	Not applicable	-	Not applicable	-
(b) Design Issues				
Salary market policy	Not known	-	Above average	A
Benefits market policy	Not known	-	Above average	A
Incentives in pay mix	None	A	High	E
Total compensation	Low future potential with higher immediate payoffs	A	Low future potential with higher immediate payoffs	A
Reinforcement schedule	Annual rises	A	Annual	A
Reward emphasis	Pecuniary	E	Pecuniary	E
(c) Administrative Framework				
Decision making	Decentralised to refinery	E	Centralised	A
Pay disclosure	High	E	High (public)	E
Governance structure	Union involved	E	Union participation	E
Nature of pay policies	Documented in award	A	Carefully documented	A
	TOTAL	A = 9 E = 4 A/E = 1 N/A=3[(2)] U/K=2[(3)]	**TOTAL**	A = 10 E = 5 A/E = 1 N/A=3[(2)]

Notes:

(1) The award is mainly job classification based, but the list of duties could be interpreted as competencies as well.

(2) N/A=Not applicable (3) U/K= Unknown

Table 7.4

Summary Profile of Algorithmic (A) and Experimental (E) Compensation Patterns of Managerial Staff Compensation in Oilco Australia and Oilco Singapore as at 1995

	Oilco Australia Managerial Staff		Oilco Singapore Managerial Staff	
	Compensation Feature	**A or E**	**Compensation Feature**	**A or E**
(a) Basis for Pay				
Unit of analysis	Job evaluated	A	Job evaluated	A
Criteria for pay increases	Individual performance (and overall rise)	A/E	Individual performance (plus overall rise)	A/E
Level of performance measurement	Individual and aggregate	E	Individual and aggregate	E
Time orientation	Short-term	A	Short-term	A
Risk sharing	Some pay at risk	E	Pay at risk	E
Strategic focus	Corporate	A	Corporate	A
Equity concern	Internal equity plus market review	A/E	Internal equity plus market review	A/E
Reward distribution	Hierarchical	A	Hierarchical	A
Type of control	Outcomes	E	Outcomes	E
(b) Design Issues				
Salary market policy	Above market average	A	Above market average	A
Benefits market policy	Above market average	A	Generous	A
Incentives in pay mix	High	E	High	E
Total compensation	Low future potential with higher immediate payoffs	A	Low future potential with higher immediate payoffs	A
Reinforcement schedule	Annual reviews	A	Annual reviews	A
Reward emphasis	Pecuniary	E	Pecuniary	E
(c) Administrative Framework				
Decision making	Centralised	A	Centralised	A
Pay disclosure	Low (for individual salaries)	A (1)	Low	A
Governance structure	Staff consulted on design of bonus system	E (2)	Unilateral	A
Nature of pay policies	Bureaucratic	A	Bureaucratic	A
	TOTAL	A = 11 E = 5 A/E = 3	**TOTAL**	A = 12 E = 5 A/E=2

Notes: (1) While individual salaries have low disclosure, the structure is well publicised
(2) Focus groups of staff were used to obtain suggestions on a new bonus system

A slightly different story emerged for managerial compensation (Table 7.4). was centrally designed, with occasional input from employee focus groups, but had no union involvement (marginally Experiential). The managerial and senior administrative structure thus had a mixture of Algorithmic and Experiential elements. While the pay-for-performance aspects have pushed it more towards Experiential features, the system's basic components of job evaluation, external surveys and performance-linked merit pay have been unchanged for many years, and were well documented. The profile was therefore predominantly Algorithmic. The more recent innovations of bonuses linked to individual performance and corporate indicators, together with some extra variety of employee benefits for junior management, was continuing the trend towards an Experiential compensation profile.

Oilco Australia Compensation and the External Environment

Taking the research questions in turn on the effect of the external environment on subsidiary compensation, a number of observations can be made without suggesting that the external environment actually causes a particular design.

According to Oilco Australia interviewees, Australian legislation had affected the cost of compensation and the way certain parts had been packaged, but also provided an opportunity to revise the award staff pay systems. For example, according to the Remuneration Manager,

> Equal pay [laws] had no impact on [Oilco] because we didn't have different rates of pay for males and females, and there is no difference in awards for males and females. FBT was an increased cost for the company though, because it was not picked up by the employees. It was seen like a payroll tax. As a result of FBT, we introduced packaging at the top end of the organisation. Most senior staff have a say in their own packages now within a set limit. Income tax has had no influence up to now. On superannuation, we have not decided yet as a result of the changes in legislation [ie the Superannuation Guarantee Charge Act 1992]. It may affect terminating employees. We pay all our company taxes and payroll taxes, workers' 'comp.' etc. because [Oilco] tries to be pure in terms of tax compliance.

All employers are subject to payroll and workers' (accident) compensation charges. Other state regulations and national awards (such as annual leave loading[4] and long service leave) allowed no choice for Oilco. Perhaps the biggest legislative effect in recent years has been through new industrial relations provisions. The Industrial Relations Acts of 1988 and 1994 gave Oilco the option of breaking away from

[4] Annual leave loading is an additional payment, sometimes included in awards, given to an employee taking accrued leave. Federal awards usually provide for a 17.5 per cent loading of wages or salary for the duration of the leave entitlement.

centralised industry bargaining and moving to separate enterprise agreements for refineries, terminals and the head office. Oilco appeared to be leading the industry in this decentralisation. Oilco had formally acknowledged the ILO (1977c; 1991b) Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy. This principle set a minimum pay rate for the company, while the recognition of unions placed Oilco Australia under the purview of the formal industrial relations system.

On the relationship of compensation to the macro-economy, the Remuneration Manager said:

> Economic indicators are one factor in setting remuneration levels and these may vary from year to year. When the economy is buoyant, this is reflected in salary level and our ability to pay. When things are tighter, ability to pay is less. The CPI and average earnings are a factor in planning salary reviews. We try to plan for future movements as an effect on the remuneration market. Unemployment is not so great a factor.

The economy was therefore perceived as having an effect the level of compensation, if not the actual structure. The compensation for classified managerial, professional and administrative employees was essentially market driven. By comparison, as one instrument in economic policy, the decisions of the AIRC in National Wage Cases and the approval of agreements were more easily identified in their influence on compensation for award staff. The Remuneration Manager stated:

> NWC decisions on increases and wage principles have had an immediate impact on award staff. They have always had the benefit of the National Wage Cases. The same doesn't apply to salaried people – the admin. and managerial groups. We note government pronouncements on pay levels, but they are not a determinant on salaries for admin. and managerial staff. We have now got to disclose the pay levels for the Directors and this gives ammunition to the unions. We don't disclose individual salaries though.

Oilco unions pursued the announced national compensation rises and then cooperated to revise awards to conform with restructuring principles in order to obtain increases for their members. Decisions of the AIRC also had an impact on the pace of reform especially for innovative agreements in the oil industry. The greater decentralisation of the operating and clerical compensation to the refinery enabled the compensation to be adapted to the pay levels and availability of skills in the local labour markets. With a company-wide salary system for the administrative, professional and managerial staff, the labour market was perceived more in national terms.

The national cultural attitudes towards education were not seen as a major factor in compensation design. Extra qualifications for non-award staff might have increased career prospects, and the company would have contributed towards education costs if the qualification was relevant. On the award side, the picture was different in that reward was now more directly linked to demonstrated competencies rather than length of service. However, the Remuneration Manager could only see some contradictory links between Australian culture and compensation. He went on:

> You could argue that the Australian concept of fairness was the basis for standard agreements across all oil companies and was pushed heavily by the unions, and the oil companies, on balance, may have seen merit in not being 'played off' against each other by the unions, and so were prepared to sacrifice the extra flexibility of individual agreements....But [Oilco] is status focused...the top jobs are on the top floor, and a car is a function of job level – just like other companies.

In considering the effects of national culture on compensation design, Table 7.5 shows the extent to which the Hodgetts and Luthans' (1993b) recommendations for the 'appropriate' pay systems for the cultural dimensions of Hofstede (1980) for Australia are reflected in the Oilco Australia remuneration systems. Table 7.5 uses the refinery operators, clerical staff and managers as examples for comparison with the pay systems in Singapore. Table 7.5 shows that the Hodgetts and Luthans suggestions for the appropriate compensation were not well reflected in the compensation systems adopted by Oilco Australia, although the match with the management compensation was better than for the refinery operators and clerical staff. This variation would suggest that other factors may be more influential in compensation design than national culture.

The role of the industrial relations system and unions in compensation design was seen by Oilco interviewees to have been very important for award staff. The company had a union preference clause in agreements, had previously been part of the negotiations for a national integrated pay system, and was now developing enterprise agreements which were agreed with the relevant unions and ratified in the AIRC. The union structure in Australia, with its occupational emphasis, meant that Oilco had to negotiate with different unions to reach separate agreements for the various occupations in the company. This obviously complicated the compensation system. An Oilco head office manager confirmed,

> pay strategies have to vary for each occupation according to the attitude of the union concerned.

Table 7.5

The Hodgetts and Luthans (H&L) Recommendations for Compensation in Australia as Reflected by Oilco Australia

AUSTRALIA				
Hofstede Dimension Index	**H&L Recommended Compensation**	**Industrial Staff Compensation (Operators)**	**Clerical/Staff Compensation**	**Managerial Compensation**
1. Moderately low Power Distance	• Low salary gaps between lowest and highest paid • Low benefits gaps • Gain-sharing • Profit-sharing	Yes within award but not within company (No)[1] Not within company (No) No No	Yes within award, but not within company (No)[1] Not within company (No) No No	No - not within management No - not within management No Yes
2. High Individualism	• Individual performance-based • External equity/competitiveness • Short-term achievements	No Yes - survey No	No Yes No	Yes Yes - survey Yes
3. Moderately high Masculinity	• Few family benefits • Gender pay differences	Yes No	Yes No	Yes No
4. Moderately weak Uncertainty Avoidance	• Emphasis on performance • Sharing of risks associated with MNE's success or failure • Competitive salaries to avoid poaching of staff • Decentralised pay policies	No No Yes Yes[2]	No No Yes Yes[2]	Yes Yes Yes No[2]
	Supported Y (Yes) Not Supported N (No)	Y = 4 N = 9	Y = 4 N = 9	Y = 8 N = 5

Notes:(1) This is counted as 'not supported' as the MD's salary exceeded A$1M. **(2)** Taken to mean decentralised within Oilco Australia, not the whole corporate MNE Oilco.

The Transport Workers' Union still preferred oil industry-wide (as opposed to company or workplace) agreements. Even the enterprise agreements had to be occupationally divided and separate. While some new large companies in Australia (such as Optus[5]) have negotiated major enterprise agreements without union involvement under recent legislation, it is unlikely that a major oil company incorporated in the 1960s could have adopted a non-union recognition strategy and got away with it.

With the consideration of industry characteristics as an another exogenous factor (Schuler, Dowling & De Cieri, 1993), Oilco had many global attributes that required coordination between corporate MNE Oilco and the operating companies in the MNE. The management of expatriate staffing and compensation was part of this. Competition for downstream oil was particularly fierce with tight refining margins and heavy retail discounting. As at 1995, Oilco Australia was rationalising its organisation, downsizing, re-engineering processes as well as investing heavily in upstream activities, joint ventures and launching new products. The external competitive environment strongly influenced the endogenous environment.

According to the head office Industrial Relations Manager, to be competitive, Oilco Australia introduced changes in the 1990s in the areas organisation (flattening of hierarchies, contracting out some activities, and flexible working), people (more use of teams), technology, and relationships (through better consultation, and negotiation of site agreements). The high density of union membership among award staff presented a challenge to the changing of compensation arrangements, something that does not apply with non-award/non-union employees. The Industrial Relations Manager went on:

> You have to involve the unions in the enterprise negotiation to get their commitment to the outcome, but you also have to try to empower the affected employees to take the initiative and control the union output, as they have the vested interest.

The technology of the industry is constantly changing and the use of more computerised process controls, automated blending systems, and computerised support systems necessitated new skills and encouraged new modes of compensation such as the skill-based enterprise agreements in the refineries and terminals.

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5 A reasonably new, privately owned telecommunications company that competes with the publicly owned Telstra company.

Continuous process production also required conditions of service for 24 hour coverage.

It is arguable that Oilco Australia's size made it more amenable to the 'due process' and to higher employee involvement in compensation design both for award and non-award employees (Jackson & Schuler, 19995:246). The corporate MNE Oilco had extensive experience in managing international operations, and in terms of compensation design for non-managerial level employees, allowed Oilco Australia substantial scope to design systems that could accommodate local demands (Schuler, Dowling & De Cieri, 1993). While there was a high degree of autonomy for design of local compensation for the operating and clerical employees (a headquarters' polycentric orientation), as mentioned before, the salary structures for the administrative, professional and managerial was centrally dictated (an ethnocentric approach).

Finally, the Oilco Australia compensation systems, apart from those of senior management, were strongly adapted to the local Australian environment. While the Hay salary structures were consistently present in the corporate Oilco MNE subsidiaries, even these were adapted and augmented slightly to fit the local internal and external environment. In contrast, the compensation for the unionised workforce was totally based on the Australian system of industrial relations and laws. There was a high degree of local autonomy (differentiation) but also some integration in order to facilitate the mobility of expatriates between nations. Apart from the corporate MNE approval of top salaries and grades in Oilco Australia, the notification to headquarters about local pay rises and the cooperation in managing expatriates, there was no evidence of strong linkages with affiliates in other countries regarding compensation for non-expatriates. According to the Remuneration Manager,

> We wouldn't talk to Hong Kong or Singapore about a lower level job with, say, only 600 Hay points. Consistency is achieved by seeing that the letter category jobs are comparable. If you get the top jobs right [ie at the appropriate level], the others fall into place.

Oilco Singapore

Company Background of Oilco Singapore

Like Oilco Australia, Oilco Singapore was a wholly owned operating company of the two-European-parent Oilco. It consisted of eight companies manufacturing and/or trading in petroleum, diesel oil, solvents, LPG, bitumen, chemicals, blending and lubricants in Singapore. The company's history in Singapore dated back to the 1890s when it had a storage installation for storing, blending and distributing imported oil. A refinery was not built until the 1960s. Since then Oilco Singapore had invested heavily into oil technology such as crude distillers, solvents plants, asphalt burning systems, hydrocrackers, thermal gasoil units, and catalytic cracking units. In 1992, the off-shore refinery complex employed about 1000 staff operating on a three-shift system. Another 700 employees were based at either the separate mainland marketing centre, or at the city head office. The city headquarters for the subsidiary housed various departments including finance, personnel, trading and public affairs. The total number of employees in 1982 was about 2300, but this had declined to 1700 by 1992, and then risen to 1800 with the company's move into chemicals by August 1995. Oilco Singapore had a financial interest in the Petrochemical Corporation of Singapore and several other local companies, Singapore being the third-largest refining centre in the world.

Organisation of Oilco Singapore

Oilco Singapore was one of Singapore's largest MNE investors. It had its own board of eight directors, four of whom were local and the other four, expatriates. All directors were executive directors, covering areas such as marketing, trading, personnel and finance. The board was responsible for the long-term viability of the Singapore operations, but like Oilco Australia, could draw on the experience of Oilco's specialist functional service companies or other operating companies. It had to uphold the standards set in the European headquarters in areas such as accounting practices, safety standards and the protection of the environment. The chairpersons/CEOs of Oilco Singapore have usually been expatriates, but two Singaporeans have had spells in the role since the late 1970s.

Production Technology of Oilco Singapore

Although the bulk of the crude oil for Oilco Singapore came from the Middle East, it was also imported from China, Indonesia, Malaysia and Brunei. Like Oilco Australia, the technology in Oilco Singapore covered crude distillation and then progressed to middle distillation and secondary processing of higher-value products. The company produced more than 100 types of main fuels, including 15 different kinds of motor gasoline, 20 diesel and 20 fuel oils. The majority of the products were exported to the Asia–Pacific region and the west coast of the United States. Products for the domestic market were sent by pipelines from the off-shore refinery to the mainland marketing centre. The mainland also housed bitumen–blending and lubricating plants. The international airport was another major work site for the company. The occupational composition of the workforce thus included plant operators of various levels, technicians, laboratory staff, machinists, maintenance employees, blending and dispatch staff, sales people, designers, and the full range of managerial and administrative employees for the business function. According to a manager, the technology for oil refining and gas/chemical production was changing with the 'state of the art' computerised control process. New employees had to be more highly skilled and were better educated. The operation was now becoming more capital intensive. The jobs with lower-level skills such as those of tanker driver, loader and waterfront valve operator had been 'contracted out'. A several billion (S) dollar expansion of Oilco's petrochemical complex was announced in 1994.

Mission and Objectives of Oilco Singapore

Oilco Singapore had both a mission and a vision statement. The vision referred to developing worldscale plants, running export oriented businesses, being internationally competitive in all aspects of quality, service and costs, being the best in the home market, and being the preferred supplier in the home and regional markets. It wanted recognition for its achievements from the Oilco group and the Government of Singapore, and had a percentile for a profitability position within the global Oilco group. The mission defined the activities of the company, its aim to be a leader, the striving for excellence in quality of product and service and its commitment to occupational health and safety and the environment. Like Oilco Australia, Oilco Singapore had to develop medium- and long-term country plans, and was subject to an annual discussion of these and the twelve–month operating plans with the parent MNE Oilco.

HRM/IR Organisation of Oilco Singapore

Each function of Oilco Singapore had its own mission statement on Oilco values, attitudes, behaviour, organisation, systems and policies. The HRM vision stated that the company 'will work towards an organisation structure which is less hierarchical, flexible in form and in which jobs are not rigidly demarcated'. The vision statement for the staff referred to the value placed on competence, professionalism, attitude, learning, recruiting the best talent, safety, and training. Good performance would be rewarded according to individual contribution, and in return, the company would practise good industrial relations and exhibit a responsible and caring attitude.

Oilco Singapore had been recognised locally for its progressive HRM/IR policies and included a Shared Industrial Relations Vision in its latest collective agreement. Aspects of its HRM practices have been adapted and adopted in the public sector, and its company collective agreements with the unions were substantial and 'have always been received very well', according to a manager. The collective agreements were unique to Singapore, but many personnel policies and procedures were derived from the world-wide Oilco group. He continued:

> [Oilco Singapore] is very independent in taking into account the local conditions and trade union structures, and we operate in a decentralised way within the broad [Oilco] framework compared with America which is very centralised. For example, bonuses are paid locally in Singapore, but expatriate staff do not get them.

The company was renowned for its highly competitive pay levels, its commitment to training, a retirement scheme that predated the Central Provident Fund (CPF), staff clubs, and good recreational facilities. Against this, downsizing of head office staff had occurred on occasions after dips in the economy such as the 1985–86 recession.

The company had a centralised human resource function headed by a Director of Personnel who served on the board, and specialist industrial relations staff based at headquarters. The refinery had its own personnel manager and employee relations manager, but there was no personnel professional in the terminal. A structure for the conduct of Oilco Singapore–union relations was laid out in the collective agreement. This identified the appropriate union and company representative to handle shift, department, worksite and company industrial issues and for regular consultation. While the emphasis was on the line managing its own relations, if a union delegate could not get a resolution to a grievance, the personnel specialist would be brought in. The design of the compensation system was the responsibility of headquarters staff, with the Director of Personnel making recommendations to the board.

As noted earlier, Singapore has no equal pay employment legislation, but Oilco did not discriminate on sex. According to a manager, the Singaporean Civil Service set the trend. The only discrimination was that males commenced with the company two annual increments higher than females because of the two years lost through national service. New young male employees were normally recruited after compulsory military service. There was a small number of foreign workers at Oilco mainly recruited from the Phillipines, Malaysia and China.

Unionisation of Oilco Singapore

Unlike Oilco Australia, Oilco Singapore only negotiated with one union, which is referred to here as the Singapore Oilco Employees' Union (SOEU). From 1955 to the present day, Oilco Singapore employees have been represented by a sequence of five unions. The first collective agreement, signed between Oilco Singapore and the industry-wide United Workers of the Petroleum Industry (UWPI) on 17 August 1962, introduced new salary scales, employee benefits, medical insurance, a house ownership scheme, a grievance procedure, and union recognition. This led to agreements with the other oil companies. In the late 1970s, the Singaporean Government adopted a new economic strategy to upgrade technology and improve living standards. With the emphasis on productivity, in 1983 the NTUC approached the Oilco branch of the UWPI with a view to forming a house union. This was accepted, and the Singapore Oilco Employees Union (SOEU) was registered on 31 August 1984.

Relations between the SOEU and Oilco Singapore were reasonably cordial. The major events for the union were the renegotiation of the collective agreement for bargainable employees every 3 years and annual negotiations over bonuses. The day-to-day activities were to deal with grievance handling and receive briefings from management on the company's performance. The union delegates were usually the first line of negotiation, and handled departmental grievances. They had no role to play in pay matters except in their role of assisting individuals who queried their compensation. The collective agreement negotiations were normally led by the full-time SOEU General Secretary. No-one attended from the NTUC. A team of union delegates did the negotiation, with the NTUC being used for legal advice. Union subscriptions were deducted directly from pay (a check-off system[6]). Future SOEU strategy was to attempt to unionise the supervisory grades in the company.

Compensation for Bargainable Employees in Oilco Singapore

Because Oilco Singapore recognised unions for bargaining purposes, since 1962 the basis for compensation for non-managerial staffs (about 60 per cent of the workforce) had been the collective agreement. The first collective agreement between the UWPI and Oilco Singapore was signed in August 1962 and was for three years. The UWPI was recognised as the collective negotiating body, but senior staff members of the refinery, police and confidential secretaries were excluded from the union. The agreement covered certain locally engaged staff and separated the conditions for industrial employees, staff employees, harbour craft employees and firemen. It was a comprehensive and sophisticated document outlining hours of work, grievance procedures, maternity leave, and medical insurance and cover as well as the compensation structure. Bargainable staff were paid in one of the 144 job classifications which were, in turn, allocated to one of nine job groups/categories. The pay system was a monthly based salary, plus annual increments for some staff, two months' bonus and an annual service gratuity.

Further collective agreements followed in 1965, 1968, 1973, 1976 and 1979, the 1965 agreement introducing a 13-grade structure to cover administrative, clerical and industrial jobs, and incorporating compassionate leave but excluding the annual service gratuity. In 1973, the Annual Wage Supplement (13th month) was fixed at 2¾ months, an amount that has been included in every agreement up to the present day. In 1976, the 13-grade structure was reduced to nine salary groups showing the range minimum and maximum and size of annual increment. New benefits included housing loans for all employees and free interest car loans for sales representatives. A

6 Check-off is a system whereby employers deduct union fees from the wages of union members and then pay them to the union concerned, sometimes charging a small percentage fee for administrative costs. Conservative governments in Australia have outlawed the practice across industry and in the public (civil) service on occasions in an attempt to reduce union membership.

holiday subsidy was recorded in 1985, but the 1988 agreement heralded a major change in compensation practice.

While the nine-grade salary structure with annual increments within a range was retained, the agreement referred to the salary grade for each job being determined by job evaluation with the scheme designed by the company. Job descriptions had to be prepared and copies given to the employee and the union. Dissatisfied employees could appeal against their grade to the company. The new salary package was as follows:

> (1) **Annual Increment** (within the salary range payable on 1 January annually, which varied from S$20 per month per year for lower grades to S$48 for higher grades). The total ranges were revised every three years when collective agreements were renegotiated depending on the market.
>
> (2) **Annual Lump Sum** (payable in January annually for employees with more than one year's service, the amount to be negotiated separately). The annual lump sum for 1988 was quoted as 15 x 2 per cent of the employee's salary as at 1 January 1988; the amount for the other 2 years of the agreement was negotiated separately. This sum was not paid if the company performance was poor. (In January, 1994, for example, 1.15 months salary was paid, according to the interviewed manager).
>
> (3) **Variable Supplementary Payment** (payable in December for employees with more than one year's service). This was a sum of money which was put into a 'pot' to accumulate over a 6 year period. The ceiling of the 'pot' was capped at 2 months salary in the 1988–90 agreement, and 'was available for withdrawal by employees when the company is doing badly to even out salary', a manager stated. The variable supplementary payment for 1988 was 0.3 months of the employee's salary at as 31 December 1988. Amounts for the subsequent years were negotiable.
>
> (4) **Annual Wage Supplement** (AWS) (usually known as the 13th month). Oilco fixed this sum at 2¾ months pay and paid one month in July and the remainder in December each year. The AWS was introduced by Oilco into its agreements in 1973 at the request of the NWC.

The rest of the 1988–90 collective agreement was similar to those of earlier years, except that some allowances and special leave provisions were enhanced. The 1991 collective agreement maintained very similar provisions to those of the 1988 agreement, except that the pay levels in the salary structure were raised. The other difference was that the age of retirement for employees joining the company after 1 January 1991 was increased to 60 years (from a previous 55) to comply with government legislation. The nine-grade structure was still preserved. This was the case for the 1994 three-year agreement as well, but a new clause entitled the [Oilco] Industrial Relations Vision was included. The annual lump sum for 1994 was fixed at 1.15 months' salary, the cumulative variable supplementary payment for 1994 as 2 months' salary, and the AWS at its usual 2¾ months. Shift allowances were enhanced considerably, perhaps reflecting the alleged dislike of shiftwork by Singaporeans.

What this progression of collective agreements shows is the consistency of approach over the years. The structure was job-based, with length of service rewarded through annual increments of the job range. The allocation of jobs to grades was done by the company and the union had no part in the design of the ten-factor job evaluation scheme. The company checked the overall level of pay through regular salary surveys. The levels were then reviewed at the renegotiation of agreements. The other significant feature of the system was the emphasis on bonuses. Although bargainable staff were appraised through the performance appraisal scheme, their pay was not linked to performance. However, various increments and bonuses could be withheld if an employee's work was not to the required standard.

While the AWS was now entrenched in agreements, the company was following the preference of the NWC in preserving a flexible component of pay, based on company performance, which could be withdrawn if company performance deteriorated. The NWC was trying to move organisations away from the overemphasis on annual increments and a seniority based wage system. However, these were still features of the Oilco scheme.

Oilco Singapore did not use any gain-sharing system, but bonuses and compensation levels took into account the competition for staff, company performance, NWC guidelines and national economic indicators. No one-off special bonuses were given to individual staff in Singapore. There were no non-financial recognition schemes except for long service. Parties were occasionally given where a manager wished to show appreciation for a special effort and congratulatory memos were sent to employees when safety targets were met. The company did not use guaranteed overtime as a way of attracting staff.

Bargainable employees usually did not disclose information on their individual salaries. For exempt staff, salaries were seen as personal, and were not published, but employees would know the range for a particular job. Employees did not have to sign an agreement to keep their salaries confidential, although Oilco provided data to the union mainly on a group basis, particularly the numbers of people nearing the maximum of their range.

Managerial Compensation in Oilco Singapore

Three pay systems covered the staff not paid under the collective bargain. These were the (1) expatriate packages, (2) directors' packages, and (3) the administrative/managerial staff salaries (known as the exempt staff). The expatriate packages were calculated on the European head office guidelines in the same way as for Oilco Australia. The European corporate head office was used as the notional base, so that 'a German expatriate may be worse off, but a Thai may be better off coming to Singapore', suggested a manager. The expatriate directors were also on international expatriate packages adjusted for location. The local directors' compensation had to be endorsed by corporate headquarters as well.

For the exempt (managerial) staff, Oilco Singapore used a Hay job-evaluated salary structure. According to a manager interviewed,

> The scheme is tied into the [European] head office and other operating companies. The main reason for this kind of evaluation is to facilitate mobility of staff between operating companies. As countries develop and have an [Oilco] company based there, they will eventually be approached to use a Hay system. The number of levels in the structure would depend on the size of the operating company.

Employees at Oilco Singapore were advised of their job classification but not their points score. A panel of trained managers was used to evaluate the jobs. The job evaluation scheme set the grades and evaluated the size of the jobs, but the whole salary structure was adjusted according to market levels. The system was performance-based, with pay increases awarded in the 0 – 10 per cent range. Employees were rated for performance through the performance appraisal system and fitted into pay bands within the job grade. According to the manager interviewed, the main problem was to get line management to differentiate between staff.

The company participated in an annual salary survey with comparable large employers such as other oil companies, banks and IBM. They used the Hay points as benchmarks. Oilco Singapore was also guided from European headquarters to ensure that the salaries being paid in Singapore were comparable with those paid in other Asian nations such as Thailand. There was apparently no reaction to the Oilco scheme from the cultural point of view. The company was not intending to use an alternative system, as Hay was universal in Oilco, and because most big companies in Singapore were using the Hay system as well. In addition to the basic salary, managerial staff received the AWS (2¾ months of pay), but the bargainable employees would normally get several months more bonuses than the exempt staff. These could be considerable. In 1991, the bargainable employees received a total of more than 8 months' pay in bonuses. In 1992, they received just over 7 months' pay, compared with 4½ for the exempt staff. In 1994, bonuses again exceeded 7 months for unionised employees.

Employee Benefits in Oilco Singapore

There were some employee benefits which were common to all Oilco Singapore staff. They were:

- Compassionate leave (death of family member)
- Cost of medicines, injections, x-rays or pathological examinations
- Dental benefits up to a limit
- Discount for oil products
- Education assistance and examination leave
- Hospital and outpatient benefit
- Housing loan scheme
- Leave for birth of a child
- Long service awards at 10 and 25 years
- Marriage leave
- Maternity leave
- Premium for Oilco Medical Insurance Scheme
- Reimbursement for company travel
- Relocation and transfer assistance
- Sick leave
- Two social clubs
- Use of company library.

The employee benefits by category are shown in Table 7.6. Because there was no government-run national medical system in Singapore, a contribution towards medical expenses was made by the employer. Oilco ran its own medical insurance policy for bargainable employees, the premiums for which were paid for by the company for the employee. But the premiums for family members had to be paid by the employee. As can be seen above, the company would pay for out-patient services and drugs. The company provided 'paid medical absence' on a full pay and half pay basis with maxima according to the category of the medical disability and the length of service of the staff member. Free medical attention was available at a clinic for employees and families who lived near the refinery. Any paid medical absence had to be certified by

Table 7.6
Employee Benefits Profile for Oilco Singapore as at 1995

	Industrial/ Blue Collar Unskilled	Skilled	Clerical/ Admin	Sales/ Technical	Professional/ Management	Board
Acting allowance	✓	✓	✓	✓	✓	
Annual leave	✓	✓	✓	✓	✓	✓
Attendance allowance						
Business entertainment expenses				✓	✓	✓
Cellular phones	(1)	(1)	(1)	(1)	(1)	(1)
Co-operative shares	(2)	(2)	(2)	(2)		
Compassionate leave	✓	✓	✓	✓	✓	✓
Death benefit	✓	✓	✓	✓		
Dental treatment	✓	✓	✓	✓	✓	✓
Early retirement schemes	✓	✓	✓	✓	✓	✓
External/social recreational club membership					✓ (3)	✓
Festive loan/advance						
Fixed monthly transport allowance					✓	✓
Free medical treatment/medicine	✓	✓	✓	✓	✓	
Funeral leave benefit	✓	✓	✓	✓	✓	✓
Hospital ward benefit	✓(4)	✓(4)	✓(4)	✓(4)	✓(4)	✓(4)
Housing loan	✓	✓	✓	✓	✓	✓
Housing renovation loan						
Laundry benefit	✓	✓				
Life insurance	(2)	(2)	(2)	(2)		
Long service award	✓	✓	✓	✓	✓	✓
Long-term illness	✓	✓	✓	✓	✓	✓
Machine allowance						
Marriage leave	✓	✓	✓	✓	✓	✓
Maternity leave	✓	✓	✓	✓	✓	✓
Meal allowance	✓	✓				
Medically board-out benefit	✓	✓	✓	✓	✓	✓
Other loans						
Paternity leave	✓	✓	✓	✓	✓	✓
Provision of car						✓
Reimbursement for use of own car on company business	✓	✓	✓	✓	✓	✓
Retirement benefit (>CPF) [Singapore]						
Retrenchment benefit	✓	✓	✓	✓	✓	
Service benefit	(5)	(5)	(5)	(5)		
Shift allowance	✓	✓				
Sick leave	✓	✓	✓	✓	✓	✓
Specialist surgical fee	✓(4)	✓(4)	✓(4)	✓(4)	✓(4)	✓(4)
Study leave benefit	✓	✓	✓	✓	✓	
Transport benefit/allowance/ reimbursement	✓	✓	✓	✓	✓	
Uniform	✓	✓				
Union day leave						
Union education leave	✓ (6)	✓(6)	✓(6)			
Unpaid leave	✓	✓	✓	✓	✓	
Voluntary resignation benefit						

Notes:
(1) Selected Staff only. (2) Union Scheme is available. (3) Some only. (4) Insurance premiums paid.
(5) Increments in agreement (6) For officials only.

the company doctor. Oilco had no life insurance scheme, but bargainable employees could be insured through their union. If any employee was not covered under the provisions of the Singaporean Workman's Compensation Act and suffered personal injury or sickness arising out of employment, the company would pay compensation. Unlike Australia, Oilco Singapore did not run a superannuation scheme because employees had to make compulsory contributions to the CPF. The CPF contribution was based on total earnings of the employee including bonuses.

Oilco Singapore used standard packages of employee benefits and did not provide a choice because of the extra administration this would have involved. The company's attitude was that the CPF was a flexible scheme enabling employees to invest in a house, shares or children's education. Employee benefits such as subsidised loans, free housing and 'free' trips were taxed. Reimbursement of expenses was not taxed. The IR Manager was of the opinion that:

> Executive benefits are not of a 'cafeteria' nature and are similar to those of the bargainable employees, but some are exclusive — probably part of our colonial heritage. We used to pay the membership fees of European clubs for expatriates, but this has now gone.

The company was very paternalistic, and had a range of benefits that compared favourably with those found in 'developed' nations. This might perhaps be due to the culture of Oilco internationally as well as the need to remain attractive and competitive in this area in a tight labour market. Of particular interest in the 1994–96 collective agreement was the option for a female employee to be granted up to five days paid leave to attend to young children aged six and below who fell ill. If more time off was required, this could be taken as annual leave or unpaid leave. In the most recent negotiations, the union pushed for company child-care, but Oilco saw this as a national issue. It concluded that the unions and government should develop a policy together, the company's view being that working mothers usually had maids. The union push was not strong as very few employers provided child-care in Singapore and union and privately run child-care centres were available. Special provisions existed for special unpaid leave including the right of Muslims to make one pilgrimage to Mecca during the duration of their employment.

Relationship of Oilco Singapore to Corporate Head Office

The relationship of Oilco Singapore to the European corporate MNE head office of Oilco was similar to that of Oilco Australia. There was no regional office for Oilco, but there was a regional coordinator based in the European head office. Both Oilco Singapore and Australia were in the same region. Representatives from Europe visited Singapore once a year to appraise the performance of the operating company and Singapore management also visited Europe annually to present business plans for the following year. According to a manager,

> We have a high degree of autonomy in the design of our pay systems system. The main interest of the head office is in the impact of labour costs on the cost structure of the Singapore operation.

The Profile of Oilco Singapore Compensation

The three occupational groups of industrial, clerical/administrative and managerial employees are used as comparisons with similar roles in Oilco Australia. The Gomez-Mejia and Balkin (1992) profiles for compensation at Oilco Singapore were shown in Tables 7.2 – 7.4. Taking the collective agreement which covered operators and clerks first (Tables 7.2 and 7.3), the company used a job-based rather than a skill-based system. The overall impression of the bargainable employee compensation was that while it had some five experiential features, the strongest trend (ten features) was towards the Algorithmic pay pattern. With the non-bargainable or exempt staff (Table 7.4), Oilco Singapore used a similar system to that of its Australian equivalent. The unit of analysis was the job that was evaluated (Algorithmic), but as well as the corporate bonuses, individual performance was assessed and rewarded (Experiential). The managerial pay system, like that in Australia, had a combination of stronger Algorithmic than Experiential components. While job evaluation was the basis of the system, within this lay some important Experiential aspects, and bonuses provided a considerable risk aspect to the package.

Oilco Singapore Compensation and the External Environment

In considering the first possible influence of the external environment on compensation design, the employment and industrial relations legislation in Singapore set the framework within which Oilco designed its systems. There is no minimum wage in Singapore and the company observed equal pay even though there was no legal requirement to do this. The Industrial Manager continued:

> Income tax rates are low and are not therefore an influence on pay systems. Some fringe benefits are taxable though, such as car allowances. With the CPF, we have no choice but to pay of course.

As Oilco Singapore has recognised unions for collective bargaining purposes since the 1960s, the Industrial Relations Act defines those who can be represented by unions. This resulted in a separate system for non-managerial staff. The Act also specifies the way disputes arising out agreements are to be settled, and the procedure was included in the collective agreements. For managerial staff who were not unionised, the management had more flexibility in compensation and so developed a separate system. The Employment Act standards for hours of work, rest days, holidays, the AWS and other conditions were used as minima only. For example, as the Annual Wage Supplement of Oilco Singapore existed before 26 August 1988, it could legally pay more than the one month AWS maximum of the Act. It did so by paying 2¾ months' bonus. The Retirement Act 1993 caused the company to revise its retirement age upwards.

In relation to the economy of Singapore, the Industrial Relations Manager said:

> The economy does not affect our systems directly, but overall pay rates and the size of bonuses are affected indirectly. When we negotiate agreements, we take the company's prospects taken into account. We look at economic indicators and the determinations of the NWC....Things like inflation and the tightness of the labour market.

On the other hand, the National Wage Council (NWC) decisions since 1972 have set the standard for wage rises in Singapore. They seem to have had more effect on the redesign of the Oilco collective agreements since 1988, when the NWC set about reforming the Singaporean method of compensation by recommending variable wage components linked to company productivity and capacity to pay. Oilco followed this lead with annual lump sums linked to performance, but with a variable supplementary payment to 'even out' salaries should the company experience difficulties, as well as the 2¾ months of AWS. As a major employer in Singapore, the company felt obliged to follow these recommendations in the same way that it followed rises recommended by the NWC for the private sector from 1972–85. The Personnel Director continued:

> The NWC doesn't recommend quantum pay increases now, but I think it will continue to function because of its political value as a committee of government, unions and employers.

It could be argued that three of the five 1986 NWC principles for a flexible wage system (Ministry of Labour, 1992:xxvi) were being followed by Oilco — (1) wages reflecting the value of the job, (2) increases taking into account individual and company performance which are not on a permanent basis, and (3) a measure of stability in the worker's income. As Oilco Singapore paid highly competitive salaries, it experienced no great difficulty in attracting and retaining staff.

The Oilco Singapore interviewees did not perceive links between national culture (including religion) and all elements of compensation system design although the Industrial Relations Manager observed:

> Titles are very important to people here and we have to make them compatible. Clerks become admin. assistants and operators become technicians. You also have to be careful with incentives as in the Asian culture, there is an emphasis on teamwork.....We have not talked about how to reward the individual high performer and how you reward him or her.

Some reflection of these views on culture could be seen in the compensation systems in Oilco Singapore. When the systems are compared to the Hodgetts and Luthans (1993b) recommendations for compensation for the Singaporean culture (according to Hofstede's [1980] dimensions) shown in Table 7.7, there was a high degree of support. This was particularly so for the industrial and clerical and administrative staff on collective agreements. The support was less for the managerial compensation. Benefits were tied to place in the compensation structures; the maximum salary for level 9 in the collective agreement was six times the lowest salary point of level 1; the agreements rewarded length of service (and thus status); and there was no singling out of high performer among the bargainable employees. The situation was different for non-bargainable staff in that individual performance was reflected in pay and there were no length of service rises. As mentioned earlier, the existence of the Hay system globally across Oilco suggests local cultural factors were given less priority than ease of company administration.

The initial research questions suggested that apart from culture, the other element of the external environment that may influence compensation design is the industrial relations system. This is particularly relevant in that Oilco Singapore elected to recognise and negotiate with unions. Unlike Oilco Australia, however, the Singaporean operating company has only had to deal with one union since it commenced collective bargaining. This simplified the pay system considerably and provided consistency of conditions of service across the whole of the bargainable workforce. The fact that the union was a 'house' union gave it undivided focus on the management of industrial relations in the company. It was not possible to say

Table 7.7

The Hodgetts and Luthans (H&L) Recommendations for Compensation in Singapore as Reflected in Oilco Singapore

SINGAPORE				
Hofstede Dimension Index	**H&L Recommended Compensation**	**Industrial Staff Compensation**	**Clerical & Admin Staff Compensation**	**Managerial Compensation**
1. High Power Distance	• Hierarchical compensation strategy	Yes	Yes	Yes
	• Pay and benefits tied to place in structure	Yes, but similar within collective agreement - different across company	Yes, similar within collective agreement - different across company	Yes
	• Large salary gaps between lowest and highest paid	Yes	Yes	Yes
2. Low Individualism	• Group compensation plans	Yes	Yes	Yes
	• Seniority-based pay	Yes	Yes	No
3. Moderately low Masculinity	• Many family benefits	Yes	Yes	No
	• Quality of worklife emphasis	Yes	Yes	Yes
	• No gender pay differences	Yes	Yes	Yes
4. Weak Uncertainty Avoidance	• Emphasis on performance	Corporate - Yes	Corporate - Yes	Yes - individual and corporate
	• Sharing of risks associated with MNE's success or failure	Yes	Yes	Yes
	• Competitive salaries to avoid poaching of staff	Yes	Yes	Yes
	• Decentralised pay policies	No(1)	No(1)	No(1)
	Supported Y (Yes) Not Supported N (No)	Y = 11 N = 1	Y = 11 N = 1	Y = 9 N = 3

Notes: (1) Taken to mean decentralised within Oilco Singapore and not within the whole corporate MNE Oilco whether the union constrained the company in changing the existing system. The agreements have been updated regularly, and they retain the job-based approach and emphasis on length of service. Because of the symbiotic relationship between the National Trade Union Council and the ruling People's Action Party, it is evident that the change to more flexible systems in the late 1980s was probably due to the influence of the NWC supported by the unions rather than to the unions themselves. However, the advantage for a union in having the collective agreement certified by the IAC is that it cannot be varied without IAC approval, and is binding on the parties for the duration of the agreement.

The industry characteristics for Oilco Singapore of strong competition and intensive change were similar to those for Oilco Australia. The Singaporean unit's main competition was from other major oil companies, and its 24 hour operation required conditions of service to support this. Being in the oil industry enabled it to have its own house union. Its compensation systems had to accommodate a changing skill profile as a result of changing technology, a feature evident in the changing job titles in its collective agreements since the 1960s. The size and capital intensity of the operation resulted in more formal compensation procedures and an awareness that the subsidiary had to conform to at least local standards of compensation.

Like Oilco Australia, the corporate Oilco head office international orientation was both polycentric and ethnocentric for the same reason that Oilco Singapore had significant autonomy in the design of its non-managerial compensation, but was restricted in its structures for the professional and managerial employees. Moreover, expatriate conditions and mobility were centralised too. With its long experience in managing international operations and well-equipped specialist HRM function, Oilco Singapore had no difficulty in handling this dual approach.

The conclusion is, therefore, that the local external environment presents considerable constraints on compensation design for non-managerial employees through the legislation on union coverage, minimum conditions, retirement age, NWC guidelines, IAC requirements for bargains, CPF contributions and union structures and allegiances. It is tempting to attribute some cultural constraints to elements of the collective agreement as well, but it is difficult to measure these and to isolate them from a possible management strategy based on the notion that 'if it is working well, do not change it because of the workload and possible conflict involved'. Cultural aspects appear less important at managerial level possibly because all managers are expected to adopt a global perspective and can expect at least one expatriate posting. Interviews with Oilco staff in Singapore did not give any impression of planned dramatic change in the compensation design in the future, whereas the Australian company was in the middle of a major strategic change for bargainable employees.

Differences and Similarities in Oilco Australia and Oilco Singapore Compensation

The main differences and similarities between the operator, clerical and managerial compensation systems in Oilco Australia and Oilco Singapore are shown in Table 7.8.

Table 7.8
Comparison of Compensation Systems in Oilco Australia and Oilco Singapore

Oilco Australia	Oilco Singapore
General Organisational Factors	
Large scale	Large scale
Process production	Process production
Capital intensive	Capital intensive
Unions recognised for bargains	Union recognised for bargains
Closed union shop in terminal	Voluntary membership
Several unions represented	Single union recognised
1/5/20 year planning	1/5/20 year planning
Strong HRM function	Strong HRM function
General Compensation Features	
Hay job evaluation for administrative and managerial staff	Hay job evaluation for non-bargainable staff
Variety of agreements and awards used	Single collective agreement
No job evaluation for non-Hay staff	In-house job evaluation scheme for non-Hay staff
Industrial Compensation	
Algorithmic (8A*;5E*;1A/E*;2 unknown; 3 not applicable)	Algorithmic (10A*;5E*;1A/E*; 3 not applicable)
Skill-based	Job-based
No job evaluation	Jobs evaluated
Pay for skill progression and overall review	Pay for tenure and overall review
No seniority pay	Increments for service
No performance appraisal	No performance appraisal
No variable component	High variable component
Agreements and awards ratified by AIRC, moving away from internal equity	Collective agreement registered with the IAC, with emphasis on internal equity
Decentralised agreements for refinery and terminal	Single centralised system
No dependence on company performance	Some dependence on company performance
H&L** recommendations? 4 yes;9 no	H&L**recommendations? 11 yes; 1 no

Oilco Australia	Oilco Singapore

Clerical Compensation

Algorithmic (9A*;4E*;1A/E*; 2 unknown; 3 not applicable)	Algorithmic (10A*; 5E*; 1A/E*; 3 not applicable)
Job-based	Job-based
Job evaluation at terminal and head office	All jobs evaluated
Annual review	Annual increments for length of service plus bonus
No performance appraisal	No performance appraisal
No variable pay	High variable component
Decentralised to refinery and terminal.	Centralised system in collective agreement
Separate system for head office	No separate system for head office
No dependence on company performance	Some dependence on company performance
H&L** recommendations? 4 yes; 9 no	H&L** recommendations? 11 yes: 1 no

Managerial Compensation***

Algorithmic (11A*;5E*;3A/E*)	Algorithmic (12A*;5E*;2A/E*)
Job-based with Hay job evaluation	Job-based with Hay job evaluation
Individual performance and overall review of scales	Individual performance and overall review of scales
Individual and aggregate performance measures for rises	Individual and aggregate performance measures for rises
Some pay at risk	Some pay at risk
Hierarchical system, internal equity emphasis	Hierarchical system, internal equity emphasis
Above average market position	Above average market position
Annual review of scales	Annual review of scales
Centralised system	Centralised system
Some dependence on company performance	Some dependence on company performance
H&L** recommendations? 8 yes; 5 no	H&L** recommendations? 9 yes; 3 no

Notes:* A is Algorithmic. E is Experiential. A/E is Algorithmic/Experiential, as used in the Gomez-Mejia and Balkin (1992:61) Summary Profile of Experiential and Algorithmic Compensation Patterns.
** H&L is Hodgetts and Luthans (1993b)
*** Excludes expatriate staff

Among many other elements, Table 7.8 presents the total number of Algorithmic and Experiential features for each of the compensation systems in Oilco Australia and Singapore extracted from Tables 7.2, 7.3 and 7.4. To ensure a more overall valid comparison of the Algorithmic (A) and Experiential (E) patterns in the affiliates, the comparison can be restricted to only those *common* compensation features for which data were available and applicable in both subsidiaries. The results are shown in Table 7.9.

Restricting the Algorithmic and Experiential classifications only to those selected common features for which data were obtainable and applicable, Table 7.9 indicates predominantly Algorithmic profiles for the operators', clerical and managerial pay systems in both subsidiaries. The overall Algorithmic profiles for all three compensation systems for both affiliates given in Table 7.8 are therefore the same and

Table 7.9
Total of Algorithmic (A) and Experiential (E) Compensation Features for Oilco Australia and Oilco Singapore as at 1995 – Selected Common Features Only

Number of Algorithmic(A)/Experiential(E) Features						
Oilco Australia				Oilco Singapore		
Operators	8 A	5 E	1 A/E	8 A	5 E	1 A/E
Clerical	9 A	4 E	1 A/E	8 A	5 E	1 A/E
Managerial	11 A	5 E	3 A/E	12 A	5 E	2 A/E

will be considered again later. This is not to say that each pair of compensation elements taken individually was the same in both subsidiaries. For example, the basis of pay (unit of analysis) was Experiential for Oilco Australia operating staff, but Algorithmic for Oilco Singapore, as noted in Table 7.2. The differences and similarities between the employee benefits of Oilco Australia and Oilco Singapore are shown in Table 7.10.

Table 7.10
Common and Unique Employee Benefits in Oilco Australia and Oilco Singapore

Common Benefits for Bargainable Employees in Both Subsidiaries	**Common Benefits for Managerial Employees* in Both Subsidiaries**
Acting allowances	Acting allowance for long-term coverage
Allowance for cover of unplanned absences	Annual leave
	Business entertainment expenses
Annual leave	Cars for certain grades
Callout pay	Club membership in selected cases
Compassionate leave	Compassionate leave
Discount on oil products for private use	CPF or superannuation
Early retirement scheme	Discount on oil products for personal use
Educational assistance scheme	Educational assistance
Laundry of uniforms	Long service awards
Leave for union education (for officials)	Long-term illness
Local transport allowance	Maternity leave
Long service awards	Mobile telephones for selected staff
Maternity leave	Paternity Leave
Meal allowance/reimbursement	Public holidays
Mobile phones (according to job)	Retirement benefits
Overtime	Short-term sickness pay
Paternity leave	Travel reimbursement
Common Benefits for Bargainable Employees in Both Subsidiaries	**Common Benefits for Managerial Employees* in Both Subsidiaries**
Pay for long-term illness	Unpaid leave with approval
Public holidays	Workers' compensation by law
Reimbursement of travelling expenses	
Retrenchment benefit	

Common Benefits for Bargainable Employees in Both Subsidiaries	
Shift allowance Short-term sick leave Standby duty allowance Superannuation/CPF Uniform where necessary Unpaid leave (with approval) Workers' compensation (by law)	
Benefits unique to Oilco Singaporean bargainable employees	**Benefits Unique to Oilco Australia bargainable employees**
Cost of medicines, injections, X-rays or pathology Death Benefit Dental treatment allowance to a set maximum Entitlements for paid leave defined as: -birth of an employee's child -death of an employee's immediate family -marriage of an employee -marriage of an employee's child -mother's leave to tender sick children Free interest car loan for salespeople Free medical treatment for some remote locations Holiday subsidy Housing loans Medical insurance premium for surgery Unpaid special leave for females to care for children Unpaid special leave to travel outside Singapore	Credit union facilities Jury service (paid absence) Long service leave (industry award) Make-up pay after accident Provision of first aid facilities Rest pause
Benefits Unique to Oilco Singapore Management* Employees	**Benefits Unique to Oilco Australian Management* Employees**
Acting Allowance Dental Treatment Fixed Transport Allowance Free Medical Treatment/Medicine Funeral Leave Benefit Hospital Ward Benefit Housing Loan Marriage Leave	Credit Union Death Benefit Other loans Voluntary Resignation Benefit

Note: * Excludes expatriate managers

Taking the main occupational groups in turn, the external environment has arguably had different effects on the design of the compensation systems in Oilco Australia and Oilco Singapore. Starting with the effects of employment law on the unionised employees' compensation design, the Employment Act in Singapore applied to workers who were earning less than S$1500 per month. In Oilco Singapore, this applied to the staff in the bottom half of the nine-grade salary structure from 1992–95 if bonuses and supplements were excluded. As discussed earlier, the Act lays down minimum requirements for a variety of conditions, but Oilco Singapore exceeded these where it was permitted under the legislation e.g. the $2^3/_4$ months of Annual Wage Supplement. There is no similar legislation in Australia. Equal pay was followed in the collective agreements of both companies, and charges against labour (such as the CPF in Singapore and payroll tax in Australia) were compulsory, but did not directly affect the design of the pay system.

While not influencing the compensation system directly, the state of the economy affected the overall increases and bonuses for Singaporean bargainable employees, as these were negotiated against a background of economic indicators and predicted company performance. Oilco Australia also reviewed and negotiated overall levels against economic and company indicators. Reviews for unionised staff were usually conducted within the context set by the National Wages Council recommendations in Singapore, and the National Wage Case guidelines of the AIRC in Australia. It could be argued that these bodies have had the most dominant impact on the nature of the collective bargains in both subsidiaries. The emphasis on flexibility and putting more pay at risk seems to have been followed by Oilco Singapore since the mid-1980s. The changing of the NWC guidelines in Australia from 1988, together with new industrial relations legislation, led to a complete review of the compensation strategy for unionised employees in the company, but the prevailing union system would probably not have permitted a (Singaporean-type) house union to be created, or a move to staff status to be made, without massive industrial conflict.

Linking compensation to the cultures of both nations is more speculative. One could make a case that as Oilco Singapore and Oilco Australia have more discretion in designing the agreements for unionised employees, they would ensure that the bargains had a better 'fit' with the workforce than an imposed system from corporate head office. In the 1994–96 Oilco Singapore collective agreement, the high Power Distance (Hofstede, 1980) is reflected in the wide difference in salaries from the bottom to the top of the nine-grade scale and in the clear hierarchy of the job-based structure. Length of service was rewarded annually until the top of the grade was reached, and there were no individual incentives — both of which factors fit a low Individualistic society. In the Oilco Australia refinery operators' agreement, the highest paid shift team leader was paid 1.4 times the salary of the trainee, which fits a low Power Distance society, but until recently, the Australian subsidiary *did* pay allowances for length of service and still does not have individual performance-linked pay (despite a high Individualism score as suggested by Hofstsede [1980]).

With Australia having a slightly higher Masculinity index than Singapore's (Hofstede, 1980), it might be argued that national culture could be one explanation for more 'family friendly' policies in Oilco Singapore than in Oilco Australia. The moderately weak Uncertainty Avoidance score (Hofstede,1980) for Australia fits the decentralised operator and clerical pay systems, but not the managerial. It also fits the variable compensation for managers (Hodgetts and Luthans, 1993b). However, the trend to decentralised systems and desire for staff status and individual appraisal would move the system towards the suggested cultural fit. All this would suggest that culture is not the sole, or even the dominant factor in compensation design.

With the respective industrial relation systems, it could be argued that the nature of union structure in Singapore and Australia constrained management in its actions. This is probably more the case in Australia, where unions have adopted different stances on decentralisation — having originally been strong proponents of a uniform compensation system for the whole oil industry. This might have continued, had it not been for the desire of the federal government, employers and ACTU to restructure awards. The eventual support of the AIRC and IR legislation has expedited this. However, as mentioned earlier, the ultimate goal of moving all employees to staff status and individual contracts would probably be resisted by the Oilco Australia unions at this stage.

One final factor in the external environment which might constrain an employer in compensation design for bargainable staff is the industrial relations custom and practice of the nation. For example, neither Oilco Singapore nor Oilco Australia had individual appraisal and pay-for-performance in its collective agreements. One reason may be that the companies did not wish to go beyond the custom and practice in their respective countries.

Focusing now on managerial compensation, the basis for the compensation structure was the same in both subsidiaries. Under corporate directive, the Hay evaluated structures were used, with levels being adjusted annually after salary surveys, and individual performance being taken into account for position within the job grade. Both affiliates maintained levels at the upper end of the labour market as a definite policy. The main difference between the two companies was that in Oilco Australia's head office and terminal, senior clerical and administrative staff had been moved out of clerical award conditions and on to the Hay structure. This necessitated leaving their union and moving to staff conditions, which included performance-linked salaries. In Oilco Singapore, however, the collective agreement pushed up higher into the organisation so that it covered administrative and accounting supervisors, and section heads for areas such as invoicing and personnel services. Their compensation was negotiated by the Oilco Singapore staff union.

The other difference was in the provision of bonuses. Oilco Australia had only just decided to introduce bonuses based on a matrix of individual and corporate performance in addition to the placement within the job grade and rises in pay levels for the whole structure in relation to the market. Oilco Singapore paid the exempt staff less pro rata bonus than it paid to its bargainable employees, but the distribution of bonuses based on the operating company's performance has been entrenched for many years.

In analysing the managerial compensation system of the two affiliates, the Gomez-Mejia and Balkin (1992) profiles in Table 7.8 show the great similarity of the managerial pay systems in the two companies. From a MNE perspective, the Oilco managerial compensation demonstrated that an identical job evaluation system can be implemented across an international company. It appears that the European corporate head office of Oilco was consulted about the packages of the top management in each subsidiary, and that it set the compensation for the CEOs and laid down the rules for the rewards of the expatriates. Apart from this, the affiliates had reasonable autonomy to administer the Hay structure in the context of their own business plans.

In assessing the impact of the external environment on managerial compensation designs of Oilco Australia and Singapore, one could argue that these were affected in only a minor way by legislation except for Fringe Benefits Tax (FBT). Employee benefits were taxable for the employees in Singapore, but the FBT was a charge on the employer in Australia. This influenced the type of package offered to top management in Australia, where managers could chose benefits within a financial limit, the employer paying the tax. Both companies followed equal pay as a policy, although this is legislated for in Australia but not in Singapore. Both also contributed towards employee superannuation in the form of CPF contributions in Singapore, and an Oilco fund in Australia (conforming to Superannuation Guarantee laws).

The state of the economy clearly had an impact on the professional and managerial labour market of both subsidiaries. Both surveyed the salaries of key employers to preserve their preferred position for overall pay levels in micro- and macro-economic contexts. The level of pay was largely the subsidiaries' responsibility. Both awarded bonuses based on corporate performance and capacity to pay. As the professional and managerial employees were not unionised in Singapore, the industrial tribunals of both nations could not directly affect the design of the managerial system. The National Wage Guidelines of the National Wages Council in Singapore, with their emphasis on flexibility, have been followed by Oilco in Singapore, and while the Council does not now recommend quantum increases, these were taken into account as one factor in professional and managerial rises up to 1985. The annual increases given to Singaporean civil servants were also taken as another benchmark. In Australia, Oilco provided rises independently of the NWC Guidelines of the AIRC and did not link any overall increases to NWC determinations.

Arguably, the effect of the Australian and Singaporean cultures has not been a significant constraint on managerial compensation. The Power Distance of the two cultures is different (Hofstede, 1980), but both have centralised managerial hierarchical compensation systems. While no (Hay) salaries were disclosed to the author in Singapore, if the pattern of the figures of the collective agreement were repeated at managerial levels, the salary gaps between the lowest and the highest paid would be much greater in Singapore than in Australia. This would fit more happily with a high Power Distance. Indeed, the Singaporean interviewees indicated that there was a 'gap' above the top level of the bargainable employees which would also support this view.

Turning to expatriate compensation, the principles for expatriate compensation were laid down by corporate European head office and were observed in both Australia and Singapore. Expatriates notionally became 'employees' of the head office in the home country job grade for calculation of compensation and allowances necessary for particular locations. This system appeared to be a hybrid of Dowling, Welch and Schuler's (1999) 'going rate' (1994) and Phatak's (1992) 'headquarters scale plus affiliate differentials' approaches.

In comparing the employee benefits, Table 7.10 records a large number of common benefits for bargainable employees in Oilco Singapore and Oilco Australia. The CPF contribution was the most expensive of all the benefits in Oilco Singapore, as superannuation would be for Oilco Australia. The high degree of overlap of benefits in the two companies is interesting, especially in the light of Singapore's NIC status. However, a glance at the Oilco Singapore collective agreements of the 1960s shows that many of these benefits date back to that time. Identical 7 day x 24 hour process operations required special arrangements for cover, shiftwork, and transport, and the Oilco corporate culture and labour cost composition may underlie the similarity of benefits as well. Apart from superannuation and CPF, the other major difference between the two companies was the provision of health insurance premiums and dental and other health allowances in the Singaporean affiliate.

With the high cost of housing in Singapore, Oilco Singapore company housing loans were available. Family leave was also provided, a benefit that was approved by the Australian Industrial Relations Commission in Australia in 1995. The unique Australian employee benefit is long-service leave, which was included in the oil industry awards and is usually incorporated in state government legislation. There is no jury system in Singapore, so payment of salary during jury service applies to Australia only.

The managerial list shows a common core of conditions for both countries. In Oilco Australia, for certain grades, there were investment loans, car provision and additional superannuation through salary sacrificing for the Hay-evaluated employees, while the pattern in Singapore again reflected the restricted national health system, with the provision of a dental treatment allowance for all staff, and free medical treatment in certain locations. The same arguments used for considering the bargainable employee benefits could be used for managerial staffs. Only minor differences could be detected, and some of those were due to the different legislation and health policies of both nations.

Conclusion

In this first case study, the process of drawing out the implications for the development of an explanatory framework and propositions can commence. In first considering the central guiding research question about how the external environment of an MNE subsidiary influences the design of its compensation system, it is immediately apparent the subsidiaries studied have more than one compensation system. In Oilco Australia, there were eleven systems operating in the head office, refinery and terminal, compared with four in Oilco Singapore. Each of these systems had different features. The question then turns to how each separate system is affected by the external environment, whether there are some environmental features that affect all compensation systems equally, or whether there are some that only affect certain systems or even pay elements.

With reference to the subsidiary research questions and the effect of employment legislation, both Oilco subsidiaries acknowledged the international codes for MNEs and therefore paid compensation similar to, or above, local labour market standards. Local host country legislation was more specific in effect; some laws applied to all compensation systems including expatriates (e.g. FBT in Australia). Other legally binding regulations like industrial awards in Australia only affected certain grades of employee. Moreover, rather than being a constraint, some industrial relations legislation may offer new opportunities in compensation design as was the case for Oilco Australia with the Industrial Relations Act 1988. The policy of national government is implemented through legislation and this was evident in the Singaporean and Australian Governments' approach to the provision of a national health system. This was a clear example of how government philosophy and legislation can affect the company provision of employee health benefits in different affiliates.

The economy had more impact on the level of compensation in both countries rather on the design of the pay structures. Within the context of the instruments of macro economic policy, however, recommendations and principles of the Singaporean National Wages Council and the NWCs of the AIRC did have an influence on the compensation design for the unionised employees. As these recommendations and principles were context specific, inter-country differences were to be expected. These recommendations and principles had less effect on non-unionised compensation.

Judging the effect of national culture on the design of compensation systems of both subsidiaries was problematical. Support for the Hodgetts and Luthans (1993b) recommendations across both subsidiaries was uneven. The propositions were not supported by the compensation systems for the operators and clerical employees in Oilco Australia, while there was marginal support from the managerial pay system. By comparison, the degree of support for the propositions was much greater for all occupations in Oilco Singapore, but again varied between operators and management. This result would suggest that national culture is not the main determinant. However, management's perception of how far national culture should be heeded in deciding on a compensation design may vary according to nation or occupation.

More clearly an effect on subsidiary compensation was the industrial relations systems of both nations. Having decided to recognise unions, both Oilco Australia and Singapore worked within the formality of their respective industrial relation systems and with the union structures. Agreements with unions were subject to ratification by an industrial tribunal and were thus similar to those of local firms. The interaction of government philosophy, legislation and industrial relation systems is evident in both countries and affects the discretion of the MNE to strike agreements which further the goals of the business. Non-unionised compensation is not affected directly by the host country IR system.

We noted that industry characteristics should be included as an external influence on pay design. Strong competition in the industry, vulnerability to swings in oil prices, external regulation, and changing technology and products shaped HR policies and practice. Oilco Australia used the change in IR legislation to rethink its HR and IR strategy. The subsidiaries' internal features also affected compensation design. The size of both companies required formal compensation arrangements and conformity with local practices to be acknowledged as good employers. Changing technology affected skill profiles in both countries and pay systems therefore had to accommodate these either in skill-based pay or by change of job content. With the intensity of competition, Oilco Australia wished to introduce its own enterprise agreements which were skill-based and linked to local performance indicators, rather than being party to restrictive industry-wide agreements.

Despite the differences in host country external environments, when the Gomez-Mejia and Balkin (1992) compensation profiles were applied, the pattern between Oilco Australia and Oilco Singapore was very similar in that all three compensation systems compared had an approximate ratio of 2:1 of Algorithmic to Experiential features. Again, one can ask whether this is due to internal or external factors. Oilco Australia was certainly pushing to adopt a more Experiential HRM/IR strategy with greater emphasis on skill-based pay, individual and aggregate incentives and decentralised agreements. Industrial relations legislation and the attitude of the AIRC was encouraging the decentralisation.

The corporate Oilco MNE head office international orientation was both polycentric and ethnocentric according to the type of employee. The expatriates of both subsidiaries nominally became employees of the European head office although their conditions were adapted to the country in which they were working. The managerial, professional and senior administrative staff were on a nominated structure that operated across the world although this was again adapted to fit Australian and Singaporean conditions. In contrast, the subsidiaries were free to design non-managerial compensation systems in their local context. Pay levels for managerial and professional and non-managerial staff were attuned to local and national labour market levels. The amount of autonomy from the parent MNE therefore varied across the affiliates, being less for the top positions where grades and compensation packages had to be approved by head office. For the unionised workforce, head office would be notified of the type of systems at annual briefings, but most head office concern was centred on labour costs. The well-resourced HR departments and the international management experience of the subsidiaries arguably facilitated this aspect of decentralisation.

This comparative case would suggest initially that key elements of the external environment vary in their intensity and scope and thus the discretion available to management to design compensation in subsidiaries. It was also apparent that some of the external elements were strongly inter-linked as were some features of the internal environment with the external ones.

CHAPTER EIGHT

THE FOODCO COMPANIES

Foodco Australia

Company Background of Foodco Australia

The history of the MNE Foodco dated back more than 200 years. The company had manufacturing facilities in 23 countries and beverages and confectionery products selling in over 190 nations. It operated primarily in the 'impulse purchase' or 'informal consumption' segment of these markets. Employing more than 40,000 people world-wide, its corporate head office was in Europe. Foodco's products were first imported into Australia in 1881, and the first manufacturing plant commenced production in Australia in 1921. Incorporated in 1971, Foodco Australia became one of Australia's major food companies and at the time of this study employed nearly 6,000 employees throughout Australia, New Zealand, Asia and the Pacific. The head office was located in Melbourne, where it housed executive and corporate services staff. For the purposes of this study, a manufacturing site of the confectionery division was selected. The former confectionery company operating on this site was bought out by Foodco Australia in 1967. The Foodco operation had about 750 employees who were involved in manufacturing, plus two departments that were non-operational — the computing service for Australasia and scientific services for the confectionery division. Foodco Australia had international responsibility for the Asia–Pacific region (which was previously controlled by the European head office).

Organisation of Foodco Australia

Foodco Australia had three operating divisions (confectionery, drinks and food) and a corporate services division based at head office in Melbourne. The Australian organisation operated through a holding company with its own board of executive and non-executive directors. The Chief Executive chaired an operating company that included the Managing Directors of the Confectionery and Drinks Divisions. These latter directors reported to the stream (confectionery and drinks) directors at the European corporate MNE head office in addition to their links to the Australian board. The Confectionery Division in Australia had its own board of management which included the Operational Director for the factory under study. The Foodco Australia board made corporate decisions and met quarterly, but did not have a role in the operation of divisions.

The reporting relationships for the manufacturing plant studied are shown in Figure 8.1.

Figure 8.1
Reporting Relationships for Foodco Australia

Apart from the managers and operational staff shown, the site employed professional scientists such a chemists, food technologists, and laboratory technicians, some of whom had supervisory roles. There were also engineers, some with supervisory roles, and one draftsperson. The plant HR Manager forecast that the current authority structure would continue. The company believed it was relatively flat, and had not attempted a completely flat structure as they believed it would not work. A European Foodco factory had tried a structure with no supervisors and elected leaders, but this had not been successful. There had been no work done on developing team structures or group bonuses at the plant. Foodco was not considering semi-autonomous work groups or cellular methods of production. It had discrete units of production based on the product, but they were not work teams. The plant ran as a hierarchy rather as a flat structure.

Production Technology of Foodco Australia

The technology of the manufacturing plant was very capital intensive. Where possible, the company used 'state of the art' confectionery manufacturing equipment, but was limited by the type of products it made. The site produced about 120 different products and so production runs were very short, difficult to mechanise, and labour intensive. There was a trade-off between the variety of product and mechanisation. The factory chosen for this study concentrated on particular product ranges and exported about 5 per cent of its output. The process was very much production-line driven. As the company became more technologically advanced, it was expecting to need more skills, especially in the technical area. Quality assurance had made advances, particularly in microbiology and the scientific testing of raw materials. The customers included large supermarket chains, milk bars, wholesalers and cash 'n' carry operations. As the Australian market was mature, linked to population growth, and highly competitive, the company's emphasis was on the Asia–Pacific region.

Mission and Objectives of Foodco Australia

The philosophy of world-wide Foodco was stated in documents outlining its strategic objectives and priorities and values, and was signed by the European Chief Executive. The documents referred to the goodwill of the customers as the basis of business, since the MNE depended on millions of repeat purchases daily, and to the need to be competitive on quality, value and service. They discussed the process for setting objectives, the need for innovation, taking advantage of change, maintaining a simple organisation structure, openness of communications, commitment, and recognition of the role of stake-holders. This theme was developed by Foodco Australia's policy on corporate responsibility. The policy statement referred to being an equitable and responsible employer, concerned with employee welfare and showing a willingness to provide the opportunity for each employee to achieve satisfying work. In return, the company required employees to perform in accordance with the company standards. Foodco Australia expected wages and conditions of employment to meet the standards of similar companies operating in a similar environment, and to promote the development of employee skills by providing educational and career opportunities, when appropriate, to those who wished to avail themselves of them. The policy also stated that the company aimed to delegate decision making as far down the line as possible, and to appoint people on merit and observe equal opportunity.

The MNE's strong corporate philosophy, which dated back to the original European owners, encouraged strong employee involvement and benefits in the nineteenth century. According to a manager interviewed, some of this welfare philosophy 'rubbed off' on to Australia. Employee welfare was high on the company's list of responsibilities and included assisting staff with preventative medical, legal, marital and financial problems. Nevertheless, the Foodco corporate Remuneration Manager said that the culture of the company was 'to work hard to get ahead'. She went on: 'People are respected for working hard and if they do not, they usually leave the company'. Jobs which could be mastered between 9 am and 5 pm 'would be seen as unimportant'.

The major objectives for Foodco Australia were profit, market share and sales growth targets. All projects had return-of-investment targets. The operational objective was to achieve flexibility and manufacturing efficiencies, including the better application of technology to achieve cost savings. In the last decade, the company had increased production while reducing staff numbers, and further growth into Asia would enable the company to have longer production runs. Foodco competed on price and quality and had strong brand loyalty backed by heavy advertising. The philosophy was to provide the best quality at a competitive price, but not necessarily to be the cheapest.

HRM/IR Organisation of Foodco Australia

The HRM function at Australian head office level was headed by a HR Director and a corporate HR team including a Remuneration Manager. The HRM function at the manufacturing site was managed by a HR Manager and his staff, who reported to the Operations Director. The HRM activity covered staffing, training, industrial relations, payroll, occupational health and safety, rehabilitation, employee relations, and public relations. The HRM strategy was to support the business plan through HRM policies that took advantage of labour market reforms and labour flexibility. Reporting to the HR Manager was an Employment Officer, Occupational Health and Safety Manager, a Training Manager, and an Industrial Relations Manager. All HRM staff were fairly flexible and there was an overlap of function because the department was 'seen as an employee relations issues department, rather than a separate functional one', said the plant's HR Manager. The HRM procedures were written and formalised. There was a corporate policy manual which covered items such as recruitment, selection, induction, leave, service with the company, relocation and termination. The site did not have separate personnel policies as such, but there was an induction booklet that set out the rules and regulations for the plant including health and safety regulations, access to facilities and sickness reporting rules.

With labour costs being 12–20 per cent of operating costs depending on labour content of products, the company maintained a core employee structure and a number of temporary employees. By using this structure, Foodco had quantitative flexibility and could recruit or lay off people according to the demand of the product. Qualitative flexibility was achieved through multi-skilling and a variety of different shift patterns. Part-time shifts were employed when necessary. About one-fifth of the production employees were part-time.

The industrial workforce composition of the Foodco factory consisted of 50 per cent unskilled employees (who could be trained in 1–2 months), 30 per cent semi-skilled, and 20 per cent skilled. A skilled confectionery cook usually required 12 months' experience and training to understand the process. The workforce of the manufacturing plant reflected the ethnic composition of Australia. The company had a policy of requiring good written and spoken English as a selection criterion, but the Foodco plant did not see ethnic composition as a factor in pay system design. About half of the factory staff were male, compared with 80 per cent of the management employees.

Unionisation of Foodco Australia

There were three main unions on site — the Automotive, Food, Metals, Engineering, Printing and Kindred Industries Union (the Metals [confectionery] Union), the National Union of Workers (NUW), and the Australian Municipal, Administrative, Clerical and Services Union (AMACSU). There were previously four main unions on site, but the Federated Confectioners' Association of Australia (a union) merged with the metals union in the early 1990s and became a division of this. In addition, five other unions had about two or three members each. At the time of the first interviews, the company operated a closed shop and was 100 per cent unionised. Trade union membership fees were deducted from pay. This had been the case since the late 1970s. In 1993, employees were notified that the closed shop no longer existed and that they would have to sign an 'authority to deduct union dues' to get deducted from pay packets. Many employees did not do this, and it led to a dramatic decline in numbers. However, each main trade union had a shop steward and the metals (confectionery) union had three shop stewards on day shift, two on the afternoon and one on the night shift. At peak membership, about 600 members of this union worked on shifts. The unions did not operate as a single formal bargaining unit, but this is not to say that it might not occur in the future. Foodco did not have regular meetings with stewards, although the Industrial Relations Manager probably saw them weekly on a casual basis while walking around the site.

The Metals Union, when representing the metal trades employees, had one shop steward and 70 members. The NUW also had 70 members and two shop stewards when fully unionised — one on day shift and the other on afternoon shift. The AMACSU had 30 members and one steward. The company had a formal grievance procedure which was incorporated into the site agreements.

Compensation for Bargainable Employees in Foodco Australia

Taking the **operators** first, on the ratification of a federal Confectioners' Award in 1980, Foodco Australia decided in 1980 to move to an enterprise bargain or site agreement for its employees, and to opt out of the AIRC National Wage Case system. According to the manager interviewed, the main reason for this strategy was frustration with the stance of the union, then named the Federated Confectioners' Association of Australia (FCAA). The confectionery operators' local agreements on wages and conditions were negotiated without full-time trade union official involvement, but with union ratification. Negotiations were carried out between the shop floor representatives elected by the employees, shop stewards, and the plant HR Manager. The resulting documents were not legally binding, but were 'letters of agreement' including a 'no strike' clause. In some cases, the FCAA would not sign agreements. The Factory HR Manager went on:

> This strategy has increased the bond between the plant management and the employees. These agreements were the forerunner of enterprise agreements and although they were not ratified by the IRC or unions, they were stuck to.

The position now was that the site agreement covered the wage increases, flexibility and operation of shiftwork. As Foodco plant was a respondent to the federal Confectioners' Award which covered it and about 40 other respondents, it had to follow the federal award. However, as a result of Foodco's log of claims against the union, it had a separate appendix to the Award containing the following provisions:

- Annual leave
- Conditions for part-time employees
- Disputes procedure
- Hours of work
- Length of the working week (38 hours)
- Payment of wages
- Shiftwork conditions (3 shift system)
- Sick leave.

The site agreements typically operated for two years and guaranteed wage increases in return for certain work practices. The 'no strike' provision was linked to the employees agreeing not to claim an increase during the duration of the agreement. The wage increases in the local site agreement were not related to AIRC National Wage Case decisions. The quantum had been different and paid at different times. Typically, over a two-year agreement, Foodco had paid four instalments at six-monthly intervals. Although there was an expectation that companies would not exceed the NWC increase, Foodco had sometimes done so in the past. This drew the attention of the governments of the day to the pricing of the company's products. Since the advent of decentralised bargaining, this has no longer been an issue.

The company encouraged consultation at shop steward level and would only involve full-time officials once a deal had been agreed. The metals (confectionery) union signed on behalf of its members, although the agreement was put to a vote of employees. 'This has worked well', stated the HR Manager. The company had a better capacity to determine wages and conditions, although the agreements exceeded award levels. The federal Confectioners' Award was seen as a minimum standard, with the local unique features being the wage rates and 'some cosmetic issues'. Overtime was still paid at award rates, but the agreement probably had more flexibility in part-time and casual ratios, together with unique agreements on sick leave and days on which leave could be taken.

Before 1990, the federal Confectioners' Award had four grades of pay and more than 100 job classifications. This structure was subsequently rationalised into four grades in which, for each grade, typical tasks were listed (e.g. 'operating chocolate drop depositing machine' for Grade 1)(AIRC Print CO53LL). Similar descriptions applied for the award as at August 1995. Foodco only worked with three grades of employee and did not classify people according to jobs in the Award. It was only partly used in this regard. The company adopted a more multi-skilled approach. Three grades — A (high), B and C (lowest) — were used to sever the link with the Award. Level A was for systems operators who could operate a number of systems. For example, for one product, there might be four pieces of equipment and the operator could handle all four. Level B was for machine operators who could only run one machine in a group while Level C was for packers, who packed the product with very little machine operation, using mainly manual skills. This structure still applied, had a fixed single wage point for each scale, and contained no incentive elements, production bonuses or piecework arrangements for the confectioners.

With the **trade metals staff**, three grades with single pay points based on the federal restructured Metal Industry Award were used: Trade Assistant (unskilled), Fitter and Fitter Special Class. Only one Trade Assistant was employed and was paid at a fixed percentage of the trade fitter's rate (quoted as 100 per cent). At the trades level, all employees had to possess a trade certificate. The classification 'Special Class' was added to the Metals Award in 1989, applied mainly to people who had pneumatic and hydraulic skills, and generated a wage of 115 per cent of the fitter's rate. Foodco's plant changed this slightly because there was a need for the 'Special Class' employees to undertake unique work in the factory. The rates paid were well above those specified in the Metals Award and were incorporated in a site agreement with the shop steward. Typically, if someone joined the company as a fitter, it would take him or her 12 months to graduate to the 'Special Class' classification. Their competence was assessed by the supervisor.

The plant designed its own four-level, skill-related structure with single pay points for the **stores employees**. Level 1 was the base level for unskilled employees. Level 2 was for forklift drivers (who had to pass a test) with a requirement of understanding the basic distribution and store system. Level 3 encompassed the work of levels 1 and 2, together with an 'understanding of multiple transactions' needing clerical and administrative skills. Staff in Level 4 mastered the work of the other 3 levels and supervised other employees.

The **supervisors of the confectionery operators** were unionised and were paid on a two-level structure of fixed point rates. Grade A was for the Leading Hands (who supervised four to five people), and Grade B for the 20 Section Leaders in the plant. Their conditions of service were similar to those of the operators, but the pay was clearly higher. They were on individual contracts although they got the same salary increases as the confectionery operators. The company had considered productivity-based incentives for these supervisors, but had not overcome the problem of work measurement. The main difficulty was to distinguish their individual contribution from company performance. For example, if the Section Leader did well in reducing labour cost, this might not be reflected in sales if the market was flat. Nevertheless, the Section Leaders were appraised, but the assessment was not directly linked to pay. It was used as one factor in setting pay, but the assessment interview was separated from the pay determination date. According to the site HR Manager, 'to have them together would spoil the atmosphere of the interview'. The purpose of the appraisal was to generate data for performance counselling, training and coaching, to give constructive feedback on performance, and to assist in setting an appropriate salary. The criteria for assessment were output, quality, ordering, staff development of subordinates, communication, housekeeping, self-development, staff hygiene, safety practices, handling of paperwork, providing an example to subordinates, and an overall assessment. The document was signed by the supervising Area Manager and checked by another assessor.

The **clerical staff**, said the manager interviewed, had the least structured compensation of all the unionised employees. The site had about 30 clerks, and there was no formal compensation structure or particular philosophy about paying above the state clerical award level, but the strategy was 'to get the best possible people and to pay what can be afforded', said an interviewed manager. There was a site agreement with the AMACSU (Clerks' Union), but this was not registered with industrial tribunals. It consisted of an exchange of letters between the AMACSU and the Foodco plant specifying salaries for a two-year period. The negotiations occurred between the HR Manager, the Industrial Relations Manager, the shop stewards on site and the local organiser for the AMACSU. The idea for a site agreement dated back to the early 1980s and covered conditions over and above the state clerical award, which was seen as the safety net. The state clerical award had been replaced by a federal award as a result of the employee relations legislation in Victoria. The site agreement outlined the proposed salary increases and special conditions such as special leave. As the majority of the clerks were female, they could use sick leave to cover absence due to their children being sick. Job descriptions were used for clerical positions, but there was no formal job evaluation scheme. In the future, the interviewed manager talked of the possibility of attempting to link Foodco strategies and organisational structure to clerical pay with some kind of integrated job evaluation, job redesign and performance appraisal system. Clerical staff were formally appraised without any link to pay. The assessment was used to motivate employees and to identify training needs where someone was under-performing.

No performance bonuses or incentives were provided for clerical employees, but there was access to the Employee Share Plan. The hours of work were 40 per week with some staff working 36 hours per week. There were only a small number located in computing and distribution areas who worked on shifts, and loading was paid for afternoon and evening shiftwork. Overtime was paid on a limited scale. The Foodco site had no problems in attracting good staff even in a tight labour market because of its image as a good employer. It undertook external salary surveys of the local labour market to ensure its compensation competitiveness.

The basis of compensation was therefore mainly the job scope although 'jobs are not defined in a rigorous way', said the manager. With the plant's own three-grade system, Level 1 was for base grade clerks with no keyboard or PC skills. Level 2 was for clerks with keyboard or PC skills. Level 3 was for clerks with detailed administrative systems knowledge or with supervisory responsibilities for Level 1 clerks. Foodco used the state clerical award as a guide for conditions, but as the plant paid well above these rates (probably A$50–A$100 per week more), it did not see its compensation as relevant to the state award. The state clerical award was restructured in 1991 to a six-classification structure, and the company was considering the implication of this for its structure. However, with the election of the state Liberal/National Party conservative coalition Government in Victoria in 1992 and the passage of its Employee Relations Act, all state awards were frozen from March 1993 at levels existing at that time, and so became even less relevant to Foodco. (As mentioned earlier, the Victorian State Government later transferred its entire industrial relations and award system to the federal system).

In summary, the basis of compensation for the operators was a combination of job and skill. Metals trades and the stores employees had a competency basis for their pay. Supervisors were paid according to the job they did, but had their wages indirectly linked to performance. For all these employees, there were no annual increments or seniority pay. Length of service was recognised by a service pin brooch every five years. In addition, the Foodco site operated a number of schemes for recognising the Employee of the Quarter and Employee of the Year. A quarterly prize for winners included a paid night out with a partner and the right to park in the Operations Director's car park for two weeks. At the end of the year, a limousine transported the Employee of the Year and his or her partner to a major hotel for the night after a photo session with a local celebrity such as a TV newsreader or footballer. The pay levels were checked externally every six months and although there were no similar food company competitors nearby, Foodco liked to check the local labour market rates. An interviewed manager considered the compensation levels at the plant to be high, but paid to a 'lean' workforce.

Professional and Managerial Compensation in Foodco Australia

The professional and managerial employees at the Foodco manufacturing site were paid on a company-wide salary structure that was managed from the Australian head office. The structure had eight grades, with overlapping a salary ranges covering secretaries and new graduates at one end and executive board members at the other. The grading system was devised in the early 1980s, and while it was based on job size, it was administered in a flexible manner. If a new job was created and was similar to another job in the company, then it was paid at that grade. If no similar position existed, then the job was formally evaluated by the company's own points system. The grade for a job was kept confidential within the HRM department and not divulged to employees. There were no fixed increments, and the interviewed manager said that 'employees have no idea what the money increases will be'. Foodco Australia did not like the Hay philosophy of evaluation because the company preferred confidentiality. The Foodco European head office used points and salary ranges, and the Australians believed that, if these were made general knowledge, the comparisons could 'cause trouble' between the two countries.

The performance of managers and professional staff was assessed on a one-to-one basis in January and February of each year. The head office HRM team checked economic indicators such as inflation and the market level of particular occupations for salaries through surveys, and the head office Remuneration Manager made recommendations to senior management about salary levels and individual salaries. Salary increases might be 'high', 'medium' or 'low' based on performance in the job which was assessed by senior executives. They might discuss individual performance with line managers in making final decisions. Final salary was dependent on the management of key tasks, which were listed as 'achieved' or 'not achieved'.

The salaries budget was Australia-wide and so if the manufacturing plant (in this study) was more successful than others, it might get more money to distribute, but each executive usually received the same percentage to spend. Management at the plant could make a case to top management to overspend their disposable sum if the plant performance was outstanding. The salary philosophy was to move staff through the scales so that they could progress to the top end of the scale. Foodco had a strong philosophy for paying for good performance, but the danger was that employees reached the top of the scale and then stopped. There was pressure on managers, however, to keep employees progressing beyond the top of the scale.

For bonus purposes, the 'managerial' staff were separated from the 'members of staff' and bonuses were only paid to the 600 'managerial' employees in Foodco Australia. As noted earlier, some scientists and all engineers were included in the 'managerial' category. The bonuses were based on profit and the sales volume of the Australian operations, and were expressed as a percentage of salary — usually around 10 per cent. The Company had no policy on the distance between the bottom and top salaries and the external market was very influential in determining levels.

Foodco's view was that the salary structure was based both on job and skills and that additional competencies were required as job size increased. It was more performance-based than seniority of service-based, except that length of service had a similar effect in building up salaries. No compensation was age-related. The Foodco culture of pay confidentiality was taken very seriously, and employees were reminded every year about the necessity for secrecy about their salaries. There was no trade union or staff association involvement in the design of the salary structure.

Employee Benefits in Foodco Australia

In Foodco Australia, some employee benefits were common to all members of staff and unique to other categories. The common benefits across all levels were:

- Annual leave
- Compassionate leave
- Death benefit as part of superannuation
- First aid treatment
- Long service awards
- Maternity leave
- Public holidays
- Retrenchment benefit
- Share ownership plan
- Sick leave
- Superannuation
- Unpaid leave after five years.

The Confectioners' Award laid down other provisions for operating staff which also bound Foodco. These included:

- Accident pay
- Dining room accommodation
- Lockers and dressing rooms
- Payment for jury service
- Provision of caps, overalls, footwear, gloves and uniforms
- Provision of rest room
- Seating accommodation
- Washing facilities.

Managerial staff received additional benefits such as private medical and dental cover, study leave/benefit if related to their jobs, provision of cars, and mobile telephones. The full list of benefits by employee category is shown in Table 8.1. The Remuneration Manager for Foodco stated that there was little choice of benefits as the company was very conservative. The benefits broadened in range at the top of the company and had increased in recent years. In the early 1980s, only items such as leave loading and a car were common, and the coming of FBT had raised the costs of benefits to the company. By the end of 1995, there had been no real change in employee benefits, although the $800 club membership allowance for managers had now been 'grossed up' into salaries. The medical benefits were retained, and the car policy had become more flexible. Employees could opt for a car allowance instead of a company-provided car, or lease one through a salary sacrifice system.

Table 8.1

Employee Benefits Profile for Foodco Australia as at 1995

	Industrial/ Blue Collar Unskilled	Skilled	Clerical/ Admin	Sales/ Technical	Professional/ Management	Board
Acting allowance	✓(1)	✓(1)	✓(1)			
Annual leave	✓	✓	✓	✓	✓	✓
Attendance allowance						
Benefit for overseas assignments					✓	✓
Business entertainment expenses						
Cellular phones						✓
Co-operative shares	✓	✓	✓	✓	✓	✓
Compassionate leave	✓	✓	✓	✓	✓	✓
Death benefit	✓(2)	✓(2)	✓(2)	✓(2)	✓(2)	✓(2)
Dental treatment					✓	✓
Early retirement schemes						
External/social recreational club membership					✓	✓
Festive loan/advance						
Fixed monthly transport allowance						
Free medical treatment/medicine	✓	✓	✓	✓	✓	✓
Funeral leave benefit						
Hospital ward benefit					✓	✓
Housing loan						
Housing renovation loan						
Laundry benefit						
Long service award	✓	✓	✓	✓	✓	✓
Long-term illness					✓	✓
Machine allowance						
Marriage leave						
Maternity leave	✓	✓	✓	✓	✓	✓
Meal allowance	✓	✓	✓			
Medically board-out benefit						
Other loans						
Paternity leave	✓	✓	✓			
Personal insurance						
Provision of car				✓	✓	✓
Reimbursement for use of own car on company business						
Retirement benefit (>CPF) [Singapore]						
Retrenchment benefit	✓	✓	✓	✓	✓	✓
Service benefit						
Shift allowance	✓	✓	✓			
Sick leave	✓	✓	✓	✓	✓	✓
Specialist surgical fee						
Study leave benefit					✓	
Superannuation (Australia)	✓	✓	✓	✓	✓	✓
Transport benefit/allowance/ reimbursement						
Uniform	✓	✓	✓	✓		
Union day leave						
Union education leave	✓	✓	✓			
Unpaid leave	✓(3)	✓(3)	✓(3)	✓(3)	✓(3)	✓(3)
Voluntary resignation benefit						

Notes:

(1) As per award. (2) Part of Superannuation scheme. (3) After 5 years service.

Social activities were arranged through social and sporting clubs, mid-year annual balls, employee open days and family days. The company also offered medical tests, cholesterol and diabetes tests and free diet advice. The thinking was that good employee relations equalled good industrial relations and a productive workforce. Foodco Australia introduced an employee share plan in Australia in 1983, and at the plant studied, up to 40 per cent of staff bought shares at 10 per discount repayable over an interest free period. The shares were now corporate Foodco MNE shares and so the close link with the Australian company had gone; interest in employee share ownership had declined accordingly.

Relationship of Foodco Australia to Head Offices

The relationship of the Foodco manufacturing plant to its Australian head office was relatively simple. Management salaries were administered from head office and the structure was managed from there too. The plant management was informed of the amounts to be dispersed in salary increases, but the final decision on any professional/management salary lay with the head office. The Factory HR Manager continued:

> Corporate head office sets the policies and guidelines for the operation, and we use these to consolidate information. But each factory is its own cost centre as well. We have our own budget and targets to be achieved. There are head office guidelines set down as part of the budget process, and we usually negotiate within these. But there is a fair bit of discretion within these. The relationship to the [national] head office HR people could therefore be described as loose in this sense.

The plant had no reason to be in direct contact with the European corporate head office about its compensation design.

The Profile of Foodco Australia Compensation

Tables 8.2 – 8.4 show the Foodco Australia's profile for rewards for operating, clerical and managerial staff using the Gomez-Mejia and Balkin (1992) terminology of Algorithmic and Experiential compensation patterns. The operators (Table 8.2) were on a skill-based (Experiential) system and were rewarded according to their mastery of equipment. There was no extra pay for length of service, nor was performance formally appraised or performance incentives offered. Table 8.2 shows a compensation profile

Table 8.2

Summary Profile of Algorithmic (A) and Experiential (E) Compensation Patterns of Operating Staff Compensation in Foodco Australia and Foodco Singapore as at 1995

	Foodco Australia Operating Staff		Foodco Singapore Operating Staff	
	Compensation Feature	**A or E**	**Compensation Feature**	**A or E**
(a) Basis for Pay				
Unit of analysis	Skill	E	Skills	E
Criteria for pay increases	Extra skills plus overall review	A	Skills through length of service (2)	A
Level of performance measurement	Not applicable	-	Individual and aggregate	E
Time orientation	Short-term	A (1)	Short-term	A
Risk sharing	Low	A	High	E
Strategic focus	Not applicable	-	Not applicable	-
Equity concern	Internal structure plus external review	A/E	Internal structure plus external review	A/E
Reward distribution	Different benefits across company	A	Different benefits across company	A
Type of control	Not applicable	-	Behaviours monitored	E
(b) Design Issues				
Salary market policy	Not known	-	Above market	A
Benefits market policy	Not known	-	Above market	A
Incentives in pay mix	None	A	High	E
Total compensation	Low future potential/ higher immediate payoffs	A (1)	Low future potential/ higher immediate payoffs	A
Reinforcement schedule	Fewer rewards/low frequency	A	Multiple rewards	E
Reward emphasis	Pecuniary	E	Pecuniary	E
(c) Administrative Framework				
Decision making	Site agreement — decentralised	E	Own unique system — decentralised	E
Pay disclosure	High — formal agreement	E	High	E
Governance structure	Participative	E	Participative (unionised)	E
Nature of pay policies	Bureaucratic	A	Bureaucratic	A
	TOTAL	A = 8 E = 5 A/E = 1 N/A=2(3) Unknown = 3	TOTAL	A = 7 E = 10 A/E = 1 N/A=1(3)

Notes:(1) An employee share purchase scheme was available. **(2)** A review of overall levels also took place on the expiry of the collective agreement **(3)** Not applicable

Table 8.3

Summary Profile of Algorithmic (A) and Experiential (E) Compensation Patterns of Clerical Staff Compensation in Foodco Australia and Foodco Singapore as at 1995

	Foodco Australia Clerical Staff		**Foodco Singapore Clerical Staff**	
	Compensation Feature	**A or E**	**Compensation Feature**	**A or E**
(a) <u>Basis for Pay</u>				
Unit of analysis	Job and Skill	A/E	Job and skill	A/E
Criteria for pay increases	Regular review of overall levels	A	Tenure and performance	A/E
Level of performance measurement	Individual appraisal	A (1)	Individual and aggregate	E
Time orientation	Short-term	A (2)	Short-term	A
Risk sharing	None	A	High	E
Strategic focus	Not applicable	-	Not applicable	-
Equity concern	Internal plus market	A/E	Market driven	E (4)
Reward distribution	Different benefits across company	A	Different benefits across company	A
Type of control	Individual appraisal	E	Individual appraisal (behaviour)	E
(b) <u>Design Issues</u>				
Salary market policy	Above market	A	Above market	A
Benefits market policy	Above market	A	Above market	A
Incentives in pay mix	None	A	High	E
Total compensation	Low future potential/ higher immediate payoffs	A (2)	Low future potential/ higher immediate payoffs	A
Reinforcement schedule	Low frequency	A	High frequency	E
Reward emphasis	Pecuniary	E	Pecuniary	E
(c) <u>Administrative Framework</u>				
Decision making	Site agreement	E	Site system	E
Pay disclosure	High — site agreement	E	Probably low	A (5)
Governance structure	Informal agreement	E	Non-union	A
Nature of pay policies	Reasonably bureaucratic	A	Reasonably bureaucratic	A
	TOTAL	A = 11 E = 5 A/E = 2 N/A=1 (6)	TOTAL	A = 8 E = 8 A/E = 2 N/A=1 (6)

Notes:(1) The appraisal has no link to pay. **(2)** There is, however, access to an Employee Share Plan. **(3)** Clerical staff in Foodco Singapore were not covered by the collective agreement. **(4)** There were rules for increments but no job evaluation or structure. **(5)** As the salaries were individually negotiated, it is assumed disclosure will be low. **(6)** N/A= Not applicable

Table 8.4

Summary Profile of Algorithmic (A) and Experiential (E) Compensation Patterns of Managerial Staff Compensation in Foodco Australia and Foodco Singapore as at 1995

	Foodco Australia Staff		Foodco Singapore Staff	
	Compensation Feature	**A or E**	**Compensation Feature**	**A or E**
(a) Basis for Pay				
Unit of analysis	Job	A (1)	Job	A
Criteria for pay increases	Performance	E	Performance	E
Level of performance measurement	Individual and aggregate	E	Individual and aggregate	E
Time orientation	Short-term	A (2)	Short-term	A (2)
Risk sharing	High	E	High	E
Strategic focus	Corporate	A	Business Unit	E
Equity concern	Internal and external	A/E	Market	E
Reward distribution	Benefits vary with status	A	Benefits vary	A
Type of control	Review of objectives	E	Objectives	E
(b) Design Issues				
Salary market policy	Above market	A	Above average	A
Benefits market policy	Above market	A	Above average	A
Incentives in pay mix	Moderately low	A	High	E
Total compensation	Low future potential/ higher immediate payoffs	A (2)	Low future potential/ higher immediate payoffs	A (2)
Reinforcement schedule	Low frequency	A	Annual review and annual bonus	A
Reward emphasis	Pecuniary	E	Pecuniary	E
(c) Administrative Framework				
Decision making	Centralised	A	Centralised	A (4)
Pay disclosure	Low	A	Low	A (5)
Governance structure	Authoritarian	A	Authoritarian	A
Nature of pay policies		A/E (3)		A/E (6)
	TOTAL	A = 12 E = 5 A/E = 2	TOTAL	A = 10 E = 8 A/E = 1

Notes: (1) Foodco argues that more skills are needed as the size increases. **(2)** Share purchase is available. **(3)** While there is a centralised structure, line managers have some discretion on individual cases. **(4)** Although managerial pay is linked to local performance, head office is involved in pay decisions. **(5)** An assumption as they are on individual salaries. **(6)** The structure has general rules, but salaries are individually determined.

with slightly more Algorithmic than Experiential features. The **clerical** pay system (Table 8.3) had both job and skill elements, and the preferred policy was to pay above the federal clerical award, with the base salary being an important part of the total package. The profile was mainly Algorithmic for the basis of pay and the design issues, but, as Table 8.3 illustrates, the administrative framework was largely Experiential. The **professional and managerial staff** (Table 8.4) were paid according to the job they did although Foodco had a strong commitment to 'distribute rewards based on contribution' (Gomez-Mejia & Balkin, 1992:62). The system had a short-term orientation for rewards while the purchase of shares might have provided a more long-term focus for some staff. A proportion of the professional and managerial reward was dependent on organisational performance. As Table 8.4 portrays, despite these incentives, the profile of managerial compensation was more strongly Algorithmic than Experiential.

Foodco Australia Compensation and the External Environment

Some comments on the effect of the external environment on Foodco Australia compensation systems can now be made. The company was subject to legislation which affected the cost of compensation and the way it was packaged. The company had to pay payroll taxes and workers' compensation and observe equal pay laws and state legislation on long service and other areas. The Foodco plant HR Manager stated:

> I don't see minimum levels in awards and equal pay laws as a constraint for the company as we pay above the award in any case to obtain quality staff. However, when FBT was introduced, we had to review the managerial benefits to determine the tax bill, and to assess the possibility of offering more cash instead of benefits. The new legislation on superannuation has also forced us to re-think superannuation policy. As the compulsory charge increases each year, we'll probably reduce the company's contribution in proportion. If the government is legislating on 'super', why should we offer things to employees? If we have to pay 10 per cent after 2000 plus, we probably won't have a company scheme.

Another external factor considered by subsidiary management to have a significant impact on compensation was the state of the economy. The Remuneration Manager referred to the effect of inflation on the salaries budget, and on what other companies were paying, and spoke of the way the economy affected Foodco sales and its position in the market. Incomes policies of the (then) Labor Government did not have much effect on the salary system, but if the unions pushed for higher increases in awards because of inflation, the company would take these into account in the determination of supervisors' pay. With the rising unemployment of the early 1990s, Foodco found that it was easier to fill jobs and there was not the same pressure on pay levels. The plant HR Manager was of the same opinion that:

> The Labor Government's Accord with the ACTU, [bringing about moderate national wage claims and inflation rates] has meant that the company's wage increases have been moderate as well. However, the economy does not completely determine of pay levels because during the tight labour market in 1987, we didn't alter our wages to attract staff. Instead, we stressed the company's image and employee benefits available and were more successful in attracting candidates than other firms.

The HR Manager said that the plant was in the habit of comparing its pay increases with AIRC National Wage Case (NWC) decisions and the cost of living increases. Incomes policies such as the Accord had had little impact on the compensation structures (as opposed to pay levels), as Foodco had its own site agreements. The situation for the professional and managerial salaries was the same. Foodco would take into account any AIRC NWC decision, but the January salary increases for managers were worked out independently. There were no plans for enterprise or site agreements to include all levels of staff because the company-wide managerial salary structure 'helps promotion and mobility of staff', said the Remuneration Manager. Foodco had adopted a strategy of plant agreements with the industrial staff for many years to minimise their involvement with the AIRC, state tribunals and the full-time union officials. By doing so, it attempted to minimise third party involvement. For non-award staff, the AIRC's Structural Efficiency Principles in 1988 had no impact at all on managerial salary systems.

With regard to the influence of national culture, Table 8.5 shows the extent to which the Hodgetts and Luthans (1993b) recommendations for the 'appropriate' pay systems for Hofstede's (1980) dimensions of Australian culture are reflected in the Foodco Australia compensation systems. There was more support of the propositions in the managerial compensation than for the operating and clerical staff. For the operating and clerical employees, industrial factors may be more powerful in the final design of their systems. Another argument could be that in the managerial arena, where employers have more freedom of choice, a better cultural 'fit' is more possible. Foodco interviewees did not

Table 8.5

The Hodgetts and Luthans (H&L) Recommendations for Compensation for Australia as Reflected in Foodco Australia

Australia		**Foodco Australia**		
Hofstede Dimension Index	**H&L Recommended Compensation**	**Operating Staff Compensation**	**Clerical Staff Compensation**	**Managerial Compensation**
1. Moderately low Power Distance	• Low salary gaps between lowest and highest paid • Low benefits gaps • Gain-sharing • Profit-sharing	Yes within grades - company range unknown No No No	Yes within grades - company range unknown No No No	Unknown No No Yes
2. High Individualism	• Individual performance based • External equity/ competitiveness • Short-term achievement	No Yes No	No Yes No	Yes Yes - survey Yes
3. Moderately high Masculinity	• Few family benefits • Gender pay differences	Yes No	Yes No	Yes No
4. Moderately weak Uncertainty Avoidance	• Emphasis on performance • Sharing of risks associated with MNE's success or failure • Competitive salaries to avoid poaching of staff • Decentralised pay policies	No No Yes Yes(1)	No No Yes Yes(1)	Yes Yes Yes - survey No(1)
	Supported Y (Yes) Not Supported N (No)	Y = 5 N = 8	Y = 5 N = 8	Y = 8 N = 4 Unknown = 1

Notes: (1) Taken to mean decentralised within Foodco Australia, and not within the whole corporate MNE Foodco.

see any direct relationship between Australian national culture and the design of their pay systems.

Trade unions had been a factor in influencing the pay system at the Foodco manufacturing site, but according to the plant HR Manager, this was difficult to quantify. With a forecasted change of federal government in 1996, the Corporate HR Manager speculated on a scenario in which federal awards might not be so rigid under the National/Liberal Coalition Government's industrial relations policy. 'We might be able to trade off things like shift loadings and penalty rates, and go to annual salaries for the unionised employees', he said. The unions had no impact on the professional and managerial salary system, but the Remuneration Manager did suggest that Foodco 'watched the bottom end of the structure'. The reason for this was to ensure that lower-level employees did not join unions because of a grievance over salaries.

The conclusion was that under the company's previous policy for 100 per cent unionism of industrial staff, Foodco had had to use the award system as the minimum conditions to be followed, but it had devised a strategy to maximise its control of local agreements and to downplay the intervention of the industrial tribunals and full-time union officials. Because of the occupations and union coverage in the plant, it had to adopt several pay schemes and not just one. However, compared with other Australian companies, its industrial relations strategy was ahead of its time, with its emphasis on local bargaining and site agreements. Foodco acknowledged this, but considered that a high price (through high wages) had to be paid for this flexibility. This was offset by the lack of industrial action in the history of the plant.

Like the Oilco cases, industry characteristics as another exogenous factor (Schuler, Dowling & De Cieri, 1993) were arguably significant in influencing compensation design in Foodco Australia. Foodco operated in a highly competitive market requiring new products regularly. Its products were subject to seasonal variations in demand affecting length of production runs. Raw materials were subject to price fluctuations, and a high degree of integration was necessary between supplying and manufacturing subsidiaries and marketing and distribution operations, especially in countries with no manufacturing facilities. The placement and compensation of expatriates were part of this integration. These exogenous factors influenced Foodco Australia's attempts to maximise manufacturing efficiency, and minimise the impact of the relevant federal awards and industry unions. The size of the plant, its technology and product range led to particular pay structures for the operators. Pay for skill in the form of the number of machines that could be operated was preferred by the company, the labour flexibility helping to support the short production runs. Use of temporary and part-time staff also added to the flexibility of labour.

The autonomy given to Foodco Australia by the European head office to design its own non-managerial compensation systems was arguably due partly to its international experience in running decentralised operations. Foodco's European head office adopted a polycentric approach to the compensation systems in Australia with even the managerial staff across Australia being paid via an Australian-designed system. The Foodco Australia plant did not have the same autonomy in designing its own managerial compensation system within Australia, but the sophistication in operating outside the formal award system was no doubt due to the competence of its specialist HR managers.

Foodco Singapore

Company Background of Foodco Singapore

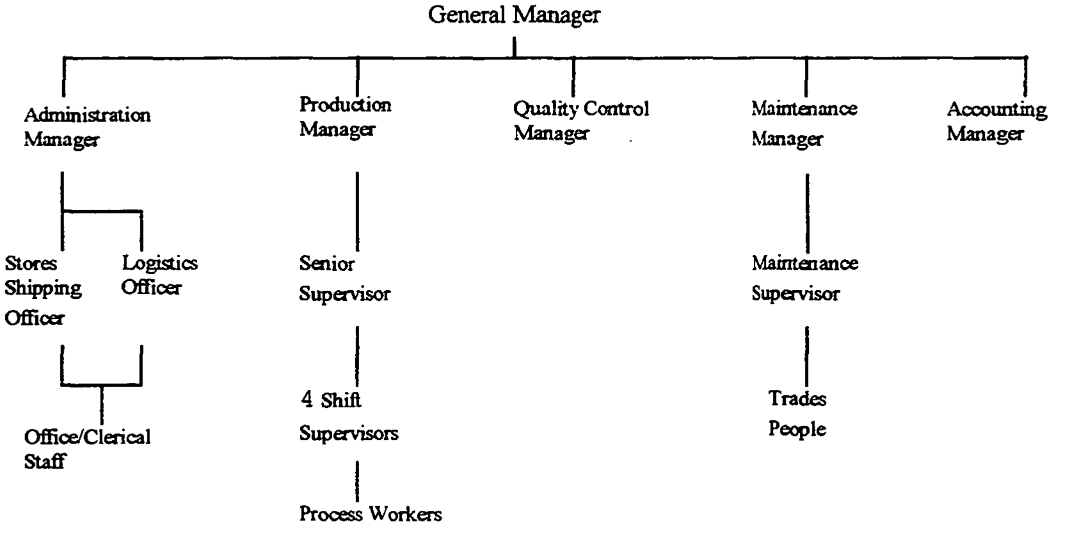
Foodco Singapore was a small, wholly owned, separately registered subsidiary in the confectionery division of Foodco Australia. It was situated on the western side of the city in an area where food manufacturers are concentrated. The company was engaged exclusively in the processing of raw confectionery resources into higher-quality products for use in confectionery and beverage manufacturing, mainly in Australia and New Zealand. Foodco started operations in January 1984 through the purchase of a manufacturing company on the same site, and was the second-largest food processor of its type in South–East Asia, with a production through-put of up to 14,000 tonnes per annum. The attraction of this location was its proximity to two of the world's principal raw confectionery resource-producing regions — Malaysia and Indonesia.

In 1992, at the time of the first interviews, Foodco Singapore had 57 employees, which was a much smaller workforce than the plant had under the previous owners. The Foodco workforce also doubled the output of the former owners. By the end of 1995, Foodco employee numbers had been reduced to 48 permanent employees by organisational restructuring and the outsourcing of functions such as security and cleaning. Its main products were all made to strict specifications and the majority of its production was exported to Australia and New Zealand for processing into confectionery products, the remainder going to Africa and other international markets. The company had no sales or marketing personnel in Singapore. Its raw food supplies came from Malaysia, Indonesia and Ghana; however, Foodco scientists also worked closely with plantations in Indonesia and Papua New Guinea.

Organisation of Foodco Singapore

The organisation chart for Foodco Singapore in 1992 is shown in Figure 8.2.

Figure 8.2
Organisation Chart for Foodco Singapore as at 1992



In 1992, Foodco Singapore's General Manager reported to the Managing Director of the Confectionery Division of Foodco Australia, and had links to a Managing

Director for Singapore and Malaysia. The Administration Manager handled all personnel matters. The Accounts Manager handled all payroll issues. By 1995, Foodco Singapore had been restructured. The General Manager had been transferred to another overseas posting and his position was replaced by a new Operations Manager whose role included the HRM function. The Administration Manager's department was abolished, and stores, shipping and warehousing placed under the Production Manager. The Maintenance Manager had become the Engineering Manager. This manager was also responsible for projects as well as maintenance, and had under him an electrical technician (staff non-union) and the trades staff.

The new Operations Manager reported to a new Regional Director for South Asia who had an office on the Foodco Singapore site. He was responsible for manufacturing in Singapore, and all operations in Indonesia, Vietnam, Thailand and Malaysia. The sales in Singapore were not related to Foodco Singapore as it was a manufacturing plant only. Foodco Singapore had 4 directors at the time of the final interviews. They were the Regional Director for South Asia (an Australian expatriate), the Regional Director for North Asia, who was a Singaporean, the Managing Director of Foodco Australia (Australian), and the Operations Manager for Foodco Singapore (an Australian expatriate).

Production Technology of Foodco Singapore

Foodco Singapore used process production techniques and technology that were not fast-changing. Following quality checks of the incoming shipments of raw food materials, they were cleaned, de-stoned, dried and de-shelled. Sterilisation then took place, followed by treatment to adjust acidity and colour. The product was further refined to specification by drying, roasting, pressing, grinding or filtration and eventually packed in containers or blocks. The factory consisted of a series of processing units, with process technicians and a central control room. Its goals were to meet production targets set daily, and to meet delivery deadlines (for

Australia) and quality specifications. High emphasis was placed on product quality. No major changes to the technology occurred during the period 1992–95.

HRM/IR Organisation of Foodco Singapore

The corporate philosophy was dominated by Foodco Australia values, the owning company's human resource management manual being produced at an interview. This manual was sent to all senior managers in Australia and Foodco Australia subsidiaries. The policies outlined preferred practices for activities such as selection, compensation and dismissal. In 1992, the Company was not unionised (unusual for its size in Singapore at that time) and prided itself on its 'family' atmosphere. The Foodco Singapore HR policies were influenced by the general Foodco Australia corporate policies and were administered by the Operations Manager. The corporate policies were used as guidelines, but the day-to-day human resource management was strongly influenced by local conditions, and the compensation system below top management level was unique to Singapore. The company's human resource policy was based on ten main principles, which could be summarised as follows:

- employees are given work suited to their ability
- emphasis on training, particularly as it could lead to promotion
- employees are regularly assessed, one function of which is to identify potential for promotion
- promotion will be internal where possible
- good working conditions
- fair pay
- good communications to keep employees informed
- cultivation of a team spirit
- observance of legislation and government strategies relating to employment.

Despite its small number of employees, the Company had written standing orders and operating procedures. Prior to 1993, as noted before, Foodco Singapore was a non-union firm and used a strategy of maintaining pay levels and benefits that were at the 75th percentile, or better, of packages of similar, possibly unionised, employers. The Company felt able to do this as employment costs were only 10–12 per cent of total costs. Because of the absence of unions, each individual (except the General Manager whose conditions were fixed in Australia) negotiated his/her own package on appointment.

The age range of the workforce in 1992 was between 20 and 50 years. The factory had an all-male workforce, the only females being in the laboratory (three) and the office (four). It was possible that females could work in the factory in the future, but the Company had no facilities for them. No part-time staff were employed. The plant employed some foreign workers who got the same percentage wage increases as for the Singaporean staff, but were paid at a lower rate because of the Foreign Workers' Levy. Unions usually accept this, so most companies operate two scales. The Administration Manager stated that short-term foreign workers were not subject to the compulsory CPF payments, 'but are still expensive'. As of 1995, contract workers were used to empty the bags of raw food material. These were usually Bangalees, Thais or Indians. In 1995, one-third of the permanent workforce were Malaysian foreign workers for whom the monthly levy was S$330. They received a lower base salary but enjoyed all other conditions of the collective agreement. They were entitled to join the relevant union, if they wished. Once a foreign worker had a three-year work permit, they were defined as a skilled worker and the company had to pay CPF contributions. The majority of employees covered by the collective agreement were in the 25–39 age range.

Unionisation of Foodco Singapore

Between the series of interviews in January and December 1992, Foodco Singapore was approached by the Food and Beverage Industrial Workers' Union (FBIWU) to organise its employees. Once the FBIWU decided that it could recruit a majority of the workforce, it sent a letter to the company seeking recognition. Foodco had the option of challenging this or giving immediate recognition. If the company had refused recognition, a ballot could have been taken. If 50 per cent or more of the employees had voted for the FBIWU coverage, the company would have had to recognise it under Singaporean industrial law. Foodco decided to settle the issue with the assistance of Ministry of Labour officials, and gave the FBIWU coverage in the plant.

The employees who became union members were the process technicians and the trades people. The supervisors were not unionised, nor were the clerical staff because of their handling of confidential business information. Foodco Singapore had to obtain clearance from the Australian head office regarding the unionisation. According to the Operations Manager, there was much communication with the HR Director based in Australia. When the first collective agreement was negotiated locally, it was sent to Australia for review.

Compensation for Bargainable Employees in Foodco Singapore

Prior to the negotiation of the collective agreement in 1993, Foodco Singapore unilaterally managed the compensation of the 'industrial' workforce. The 'industrial' category is defined to include the senior supervisor, four shift supervisors, trades (maintenance) staff and process technicians. A contract cleaner was employed to clean the toilets and offices. The workforce had to be flexible and all other cleaning was part of the role of trades and operating staff in their own work areas. 'Housekeeping' was one factor considered in assessing monthly productivity levels discussed below. The plant maintained a high level of tidiness and cleanliness. The company operated on a 24 hour x 7 day production schedule and ran four crews of technicians, with three crews on and one crew off. An employee would work 21 days in a 28-day cycle.

The compensation for the process technicians, who were trained in-house, was a fixed point in a three-grade structure based on competency and length of service. Grade III was usually the starting place for operating one machine only. Competency in operating several machines led to promotion to Grade II, while the ability to operate in all sections of the plant resulted in promotion to Grade I. These promotions were based on supervisors' assessments. The ranges for each grade were compared with levels for similar jobs in the locality. On appointment, a new process technician would be provided with a contract showing the salary progression after 3 months, 6 months, 12 months and 24 months, plus the transport allowance, level of company bonus, group productivity bonus, individual merit pay, and shift allowance.

Trades staff, who held electrical, fitting or welding certificates, were paid on two grades, also based on competencies — Grade II being the starting grade. Their salaries were on fixed points, but a service increment was given each year.

Supervisors had in the past been appointed without formal educational qualifications, but qualifications were now taken into account, and some were sent on courses. Promotion to supervisor was usually from within, and in the absence of a supervisor, a technician would act in this role to gain experience. The senior and shift supervisors were on fixed rates and were on approximately equal salaries, but with different amounts based on length of service.

In addition to the base rate, industrial staff could earn a flexible component to their base rates. This was made up of:

> (a) **Overall company bonus**. Staff were paid on a 4 weekly basis, there being 13 x 4 week periods per year. Thirteen pays were guaranteed, but an additional 2–3 months pay was available if company targets and budgets had been met at the end of the year. One of these extra month's pay was the 13th month (Annual Wage Supplement).
>
> (b) **Group Productivity Bonus**. Industrial employees could earn up to 10 per cent of their salary, paid 4 weekly based on a points performance scheme. This included 2 per cent for good housekeeping, 3 per cent for correct flavours, and 3 per cent for quality, plus other categories.
>
> (c) **Individual Merit Pay**. Within each grade was a salary curve based on an 'average', 'good', or 'excellent' assessment of performance. No guaranteed percentage of merit pay was promised to staff. It depended on their rating.

Shift premiums were paid for shift workers at the rate of S$10 per day for an afternoon shift and S$17 for a night shift. No shift allowance was paid for the day shift. Hours of work were 6.9 hours fewer per week than the 44 hours per week required under the Employment Act, but the company paid the full 44 hours to staff provided they were not late or absent on more than three occasions per week. Annual leave was in line with Employment Act requirements but staff were given extra leave with length of service. Industrial staff were encouraged to take additional qualifications, which might not necessarily result in extra pay, but might eventually lead to promotion. The government paid 70 per cent of training costs under the Skills Development Fund. Individual salaries were kept confidential, but the employees probably did discuss their income, according to the Administration Manager.

After unionisation, Foodco Singapore had to negotiate a collective agreement for the process technician, tradespeople, storepeople, process controllers and laboratory technicians. The first agreement was signed on 10 June 1993, but applied for a two-year period from 1 January 1993 to 31 December 1994. It was negotiated by the then General Manager and the Administration Manager on behalf of the company, and full-time officials of the FBIWU. The scope of the agreement covered all bargainable employees except managers, executives, confidential and probationary employees, and temporary workers with less than six months' service. Employees who were not union members were not entitled to receive more favourable benefits than those for union members. The new agreement included a grievance procedure, the six-months probation period, the working hours, shift schedule, public holiday coverage, retirement age (60) and retrenchment benefits. The latter were reasonably generous by Australian standards and included one month's salary per year of service for those with more than three years' service. Another interesting feature was Foodco's agreement to pay the FBIWU — a union — an annual lump sum calculated at S$10 per employee eligible for membership.

Others conditions stated in the first collective bargain for the technicians and trades staff were the shift premiums, the transport allowance, a uniforms and laundry service, long service awards after the 5th, 10th and 15th years of service, annual leave which increased with service, long-term illness, maternity leave (according to the Employment Act), paternity and compassionate leave, four days of (first) marriage leave, a grant on the death of a close relative, leave for official union business, examination leave and personal, hospital and surgical insurance. The collective bargain therefore formalised conditions, and where mandatory conditions were not included in the agreement, the company had to follow the Employment Act.

The heart of the collective bargain was the salary structure. This consisted of minimum and maximum points in ranges for the Electricians, Laboratory Technicians, Storekeepers, and Storemen. There were two grades for Process Controllers, two for tradesmen and three grades of Process Technician. The old structure thus still prevailed. For each of the ranges, there was a lower range shown for the foreign workers. For example, for a Singaporean Storekeeper, the base salary was in the range S$850 to S$1300 per month. The foreign-worker equivalent was S$660 to S$1000.

The progression from the minimum point of the salary grade was by **service increments** of S$40 per month payable on 1st July each year until the employee had reached the maximum of the grade. These increments were incorporated into the base salary. Not absorbed into the base salary was a **merit increment** of up to four per cent, which could be paid to any employee on 1st July depending on his/her preceding year's performance. Another component also not incorporated into the base salary was any **overall rise in pay levels** of the whole structure 'taking into account the company's performance and any recommendations of the National Wages Council'. A further feature was a **one-off bonus based on the company's performance each year**, and finally one month's pay of **Annual Wage Supplement (AWS)** less S$10 (which was paid to the FBIWU). Because the agreement was new, it had to restrict the AWS to a maximum of one month's salary under the Employment Act, but the employees got four months' bonus in total in 1995. This extra sum was dependent on company performance, NWC guidelines, what the market was paying, and Foodco Singapore's capacity to pay.

Comparing the compensation structure for the technicians and the trades employees before and after the collective agreement, Foodco had given a longer salary progression for length of service until the grade maximum was reached, but it had preserved an overall flexible bonus conditional on company performance, and individual merit pay based on individual performance. The Operations Manager stated that there was a separate performance appraisal system for the process technicians, and this was used for the awarding of the individual merit increase of up to four per cent. The appraisal was oral, with an emphasis on feedback and counselling. Any counselling required was recorded on file. The full range of salaries was adjusted when the collective agreement was renegotiated unless the pay levels became seriously out of line. When recruiting new staff, if a person had reasonable experience, they would not necessarily start at the bottom of the range. Apart from the bonuses already described in the collective agreement, the productivity bonus from the previous scheme was still paid, but was not a guaranteed sum and was not included in the collective agreement. It could be up to 10 per cent for each four-weekly period, and performance was assessed on the quality and hygiene of the product. This bonus dated back to 1985 when the government sought more flexibility in compensation systems. 'The employees averaged 9.9 per cent,' said the Operations Manager. His view was that the unionisation and collective agreement had not made the company more inflexible, but that 'we discuss more things with the unions now and have a particular responsibility to discuss things with the on-site representatives'. There were 2 employee/on-site FBIWU representatives, namely the elected secretary and treasurer.

The second collective agreement was signed in July 1995 and applied for three years for the period 1st January 1995 to 31st December 1997. The agreement was substantially the same as for the first one, except that new classifications for Senior Process Controller and Senior Process Technician had been added. The Operations Manager stated that these senior classifications were introduced to accommodate employees who had reached the maximum of the Controller and Technician scale.

The annual service increments were also increased to S$45 per year from S$40. Some pay ranges had been increased considerably, while others remained at the 1993–94 rates. Foodco used multiple of 1.5 for the ratio of the minimum to the maximum of the range.

Clerical and Technical Compensation in Foodco Singapore

The clerical and administrative staff were paid by individually negotiated contract with rates in the top 25 percentile of the labour market. Their compensation had four components: (1) an annual increment for length of service, (2) an annual merit rise, (3) a monthly paid productivity bonus of up to 10 per cent, and (4) the AWS and company bonus. An increment of about S$45 per month was paid for each year of service with the company. A performance appraisal scheme operated, as a result of which annual merit rises for good performance were determined. These were based on salary curves prepared by the Administration Manager. The clerical/administrative staff shared in the monthly productivity bonus (up to 10 per cent of salary) based on the performance on the shop floor and received the Foodco Singapore company performance bonus (which incorporated the AWS). Bonuses were not written into employment contracts, as they were not guaranteed. This category worked a 44 hour week and got no overtime if required to work longer, but enjoyed better life policy and hospital rates than those of the industrial staff. They were paid four-weekly, with the emphasis on performance to warrant merit increases.

Technical staff were paid by individually negotiated contracts. The rates were comparable with market levels and staff enjoyed (1) a base salary for a 44 hour week which was revised annually on merit, (2) annual increments for length of service, (3) a monthly bonus of up to 10 per cent based shop-floor productivity, and (4) an annual company bonus which incorporated the AWS.

Managerial Compensation in Foodco Singapore

The General Manager of Foodco Singapore in 1992 was an Australian expatriate, as were the Operations Manager and Regional Director at the time of the second interviews. The salary and conditions for the Operations Manager were determined by the Australian head office Remuneration Manager. They consisted of an Australian standard salary plus a differential to cover the extra cost of living in Singapore.

The terms for the other managers were individually negotiated based on market rates gained through surveys. Their salaries moved in line with the Singaporean labour market, but the National Wage Council guidelines were also taken into account. In 1992, the Singaporean office of an international accounting firm was given a briefing by the Australian head office and asked to suggest an appropriate package of conditions. In 1993 and 1994, Foodco Singapore used the consultants Towers Perrin to assess staff and managers' pay in the local labour market and the food industry. Managers were expected to be on 24-hour call, as the plant ran a seven-day, three-shift system. Working hours were therefore somewhat flexible.

In 1992, the package comprised of a base salary, a transport allowance for travelling expenses, telephone allowance and medical expenses. No productivity bonus was given to the managers, but they shared in the Foodco Australia corporate bonus based on the performance of the whole company (confectionery division). By the end of 1995, this arrangement had changed, and the Australian corporate bonus had been replaced by the same Foodco Singapore local bonus (including the 13th month) as was received by the clerical, operating and technical employees, based on the plant's performance. The package was thus the base salary reviewed annually on merit and CPI, the 13th month AWS, local company bonus and allowances.

An appraisal of the performance of managers was made in conjunction with the Australian head office and salary increases were based on performance, taking inflation and the cost of living in Singapore into account. The Foodco Australia performance appraisal form was used in Singapore, and managers saw and signed the completed report. The emphasis of the package was therefore on performance. Bonuses were not written into employment contracts of service as they were not guaranteed.

Employee Benefits in Foodco Singapore

The schedule of employee benefits for all levels of staff in Foodco Singapore are shown Table 8.6. The majority of benefits for the unionised staff were stated in the collective agreement and have thus been subject to negotiation. These include:

- Compassionate grant
- Examination leave
- Group personal accident and term life insurance scheme
- Hospitalisation leave
- Long service award (after 5, 10 and 15 years)
- Long-term illness leave
- Maternity leave as per the Employment Act
- Medical Benefits including hospital and dental treatment
- Paid (first) marriage leave
- Paid annual leave
- Paid compassionate/paternity leave
- Paid public holidays
- Retrenchment benefit
- Shift premiums
- Sick leave
- Transport monthly allowance
- Uniforms/laundry service
- Union education leave for branch officials.

The employee benefits for the unionised staff were generous and were originally set at these levels 'with the objective of maintaining a non-union environment', according to a manager. The long service award for over 15 years' service, for example, had a value of S$560. The schedule indicates that the same range applied to clerical, technical and managerial employees. Travel allowance varied according to group, but all employees had access to a subsidised canteen and discounts on Foodco products. The company also provided a recreation area and a small gymnasium that was used on rest days. Legislation covers workers' (injury) compensation, but Foodco enhanced this and insured staff for home to company travel. The employees had the option to buy the European parent MNE Foodco shares at a discount with an interest free loan. The majority of managers and staff

Table 8.6

Employee Benefits Profile for Foodco Singapore as at 1995

	Industrial/ Blue Collar Unskilled	Skilled	Clerical/ Admin	Sales/ Technical	Professional/ Management	Board
Acting allowance						
Annual leave	✓	✓	✓	✓	✓	
Attendance allowance						
Benefit for overseas assignments						
Business entertainment expenses						
Cellular phones						
Co-operative shares	✓	✓	✓	✓	✓	
Compassionate leave	✓	✓	✓	✓	✓	
Death benefit	✓	✓	✓	✓	✓	
Dental treatment	✓	✓	✓	✓	✓	
Early retirement schemes						
External/social recreational club membership						
Festive loan/advance	✓	✓	✓	✓		
Fixed monthly transport allowance	✓	✓	✓	✓	✓	
Free medical treatment/medicine	✓	✓	✓	✓	✓	
Funeral leave benefit	✓	✓	✓	✓	✓	
Hospital ward benefit	✓	✓	✓	✓	✓	
Housing loan						
Housing renovation loan						
Laundry benefit	✓	✓				
Long service award	✓	✓	✓	✓	✓	
Long-term illness	✓	✓	✓	✓	✓	
Machine allowance						
Marriage leave	✓	✓	✓	✓	✓	
Maternity leave	✓(1)	✓(1)	✓	✓	✓	
Meal allowance						
Medically board-out benefit						
Other loans					✓	
Paternity leave	✓	✓	✓	✓	✓	
Personal insurance	✓	✓	✓	✓	✓	
Provision of car						
Reimbursement for use of own car on company business			✓	✓	✓	
Retirement Benefit (>CPF) [Singapore]						
Retrenchment benefit	✓	✓				
Service benefit						
Shift allowance	✓	✓		✓		
Sick leave	✓	✓	✓	✓	✓	
Specialist surgical fee	✓	✓	✓	✓	✓	
Study leave/benefit	✓	✓	✓	✓	✓	
Transport benefit/allowance/ reimbursement	✓	✓	✓	✓	✓	
Uniform	✓	✓		✓		
Union day leave	✓	✓				
Union education leave	✓	✓				
Unpaid leave						
Voluntary resignation benefit						

Notes:

(1) According to Employment Act provisions.

owned shares in the parent company, but not in the Australian parent, as that was in turn wholly owned. The Operations Manager said that as at 1995, the company was under pressure to discuss a choice of benefits for staff, such as sacrificing medical benefits for more holidays.

Relationship of Foodco Singapore to Head Offices

At the first interviews, the Administration Manager summarised the relationship with the Australian head office as follows:

> [Foodco Australian] head office have an input on management salaries, but don't interfere in local factory staff. But we keep them informed. Management bonus is governed from Australia. The collective agreement will be left to our staff here. The broad [Foodco] policies are followed, and we try to incorporate what we can. Staff read the [Foodco] stuff, but the factory workers don't...

According to the Operations Manager at the later interviews, the Australian head office of Foodco did not 'interfere' in the design of the Singapore pay systems, but they were now approved by the Regional Director of South Asia, who was based in Singapore. The Australian head office did not get involved in the negotiations for the collective agreement, and left to the local management the responsibility for determining the level of employee benefits. Discussions were held with the Human Resource Director of Foodco Australia regarding the salaries proposed for the four local managers at the Singapore site. He would be consulted about the performance reviews and the suggested salaries for the following year. No contact by the Singaporean affiliate was made with the corporate MNE head office in Europe about the compensation systems in Foodco Singapore.

The Profile of Foodco Singapore Compensation

The Gomez-Mejia and Balkin (1992) profiles for the compensation in Foodco Singapore were shown in Tables 8.2 to Tables 8.4 where it was noted that three occupational groups were selected for comparison. With the **operating staff** compensation, the pattern was a compensation system which has about one-third Algorithmic and about two-thirds Experiential features. The clerical compensation (Table 8.3) had a balanced pattern of Algorithmic and Experiential factors, whereas the management system leaned slightly more towards an Algorithmic profile, although there were some strong Experiential features as well.

Foodco Singapore Compensation and the External Environment

At the first interviews, Foodco Singapore's perception of the effect of employment law on compensation design was coloured by their strategy of paying above the market rate in order to remain non-union. The Administration Manager elaborated:

> Our philosophy is to have long-term employees in which we invest training. Therefore we pay good salaries. There is no minimum wage here and no equal pay law although we practise it. Income tax does not affect pay systems, but CPF does have a big impact on employers and employees.

However, employees with salaries over S$100,000 no longer have to make a percentage contribution to the CPF. A reduction in the employer's CPF contributions in 1985 meant that the cost of labour was cheaper. The company found that these 'savings' enabled it to provide a bonus to its staff. As mentioned above, this bonus was not included in the collective or employment contract, so that maximum flexibility was maintained. Other aspects of the law, such as the recognition of unions and the provisions of the Employment Act in the collective agreement, were naturally an indirect constraint on Foodco systems, but the amendment to the retirement age and the workers' compensation provisions had a direct impact on overall employment costs.

The unions had the backing of industrial relations legislation in seeking recognition from the company. Once this was given, the management had no alternative but to negotiate a collective agreement. While Foodco Singapore argued that the unionisation had not constrained company activities unduly, the union did succeed in introducing a structure that was more service related, and an extra 'senior' grade for those who had reached the top of their existing classification. The seniority was reflected in the movement within a grade and the skill by movement between classifications. Even for the non-unionised non-managerial staff, there was an expectation that service would be rewarded with increments.

The Foodco Singapore General Manager argued that the state of the Singaporean economy had an influence on the supply of labour and the required rates to attract and retain staff. However, prior to unionisation, the company preferred to leave the base rates at a reasonably low level and to enhance conditions for industrial staff with higher shift allowances or bonuses. He continued that:

> Inflation is not seen as a major factor here but the level of unemployment is. Different races in Singapore opt for different types of work. There are more Chinese in the office, but more Malays on the shop floor. This gives us a racial balance.

Because of low inflation, the general collective agreement rates would only be reviewed within the three years of the agreement unless the salaries got seriously out of line.

Before recognising unions, Foodco Singapore used the NWC recommendations only as a guide, because the company was not obliged to follow these to the letter. Once it was unionised, the union would use these as negotiating guidelines, the manager said. If the Singaporean NWC recommended an increase, the company would study this in relation to its packages. The rates paid in the public service had no impact on the company except that it would ensure it was paying at least equal to these rates to retain its staff. With all the compensation systems in the plant, Foodco had observed the preference of the NWC and government for flexibility and reasonable levels of pay at risk.

With the rising educational level in Singapore, the Administration Manager stated that education as a basis for pay would increase in the future, in that new supervisors would probably be expected to have some formal qualifications. Most promotions, however, were 'in-house' from the shop floor. Applicants to Foodco were asked to suggest the level of conditions they expected. The company did its best to get a reasonable match between expectations and the offer.

In relation to national culture and compensation design, The Administration Manager said:

> We don't make any allowances for different races and we give equal treatment at different religious festivals such as Chinese New Year. Your position in the hierarchy is not an issue here, and we try to encourage a family culture.

Employees might have compared each other's pay packages and perhaps have taken up a grievance with the supervisor. However, the company's view was that it assessed what the job was worth and then compared the market rate outside. It tried to cultivate a culture where people wanted to go to work. Families of employees were encouraged to use the facilities, and turnover in the plant was low.

Table 8.7 shows strong support for the Hodgetts and Luthans (1993b) recommendations for operator, clerical and managerial staff compensation for Singapore's dimensions of national culture, as suggested by Hofstede (1980). Unfortunately, only the monetary rates for the collective agreement were made available. Because the company was small, it did not have an elevated hierarchy although the gap between lowest and highest paid in the collective agreement was high by Australian standards. The low Individualism (Hofstede, 1980) fitted the Foodco compensation as there was a strong emphasis on the bonuses based on plant success and the group productivity bonuses, and seniority at lower levels. Hodgetts and Luthans (1993b) also advocate a strong link between compensation and performance and risk sharing when the national culture has a weak Uncertainty Avoidance; Foodco Singapore had such a link. Lastly, the paternalistic culture of Foodco Singapore resulted in additional family benefits, which together with length of service increments for lower staff, met the Hodgetts and Luthans recommendations for a moderately low Masculinity. In general, there was a closer match by Foodco Singapore with the compensation recommendations for Singapore's national culture than there was by Foodco Australia with Australia's culture.

The impact of the industrial relation system on compensation design was evident in the changes to the pay system of the process technicians and trades staff during the

Table 8.7

The Hodgetts and Luthans (H&L) Recommendations for Compensation for Singapore as Reflected in Foodco Singapore

Singapore		Foodco Singapore		
Hofstede Dimension Index	**H&L Recommended Compensation**	**Industrial Staff (Operators) Compensation**	**Clerical Staff Compensation**	**Managerial Compensation**
1. High Power Distance	• Hierarchical compensation strategy • Pay and Benefits tied to place in structure • Large salary gaps between lowest and highest paid	Yes Yes for whole company Yes within collective agreement and probably company	Partly [(1)] Yes across company Unknown	No - individual Yes across company Unknown
2. Low Individualism	• Group compensation plans • Seniority-based pay	Yes Yes	Yes Yes	Yes No
3. Moderately low Masculinity	• Many family benefits • Quality of worklife emphasis • No gender pay differences	Yes Yes Yes	Yes Yes Yes	Yes Yes Yes
4. Weak Uncertainty Avoidance	• Emphasis on performance • Sharing of risks associated with MNE's success or failure • Competitive salaries to avoid poaching of staff • Decentralised pay policies	Yes Yes Yes No[(2)]	Yes Yes Yes No[(2)]	Yes Yes Yes (survey used) No[(2)]
	Supported Y (Yes) Not Supported N (No)	Y = 11 N = 1	Y = 9 N = 1 Partly = 1 Unknown= 1	Y = 8 N = 3 Unknown = 1

Notes:(1) Salaries were increased by increments for length of service. (2) Taken to mean decentralised within Foodco Singapore, not the whole corporate MNE Foodco unionisation of the company in 1992. Prior to the entry of the union, the Administration Manager stated that:

> The FBIWU stood outside the gate to the factory, and once they thought that they had enough interest, we got a letter. We decided to work it out with the Ministry of Labour and admitted the union. It means a collective agreement... The union can ask us to voluntarily disclose our accounts and wage rates or go to the IAC [Industrial Arbitration Court]...The company likes to pay more than the market so we work on the flexible bits like the premiums on shiftwork, and adding perks to shifts...In the new CA [collective agreement], we will try to link pay to performance rather length of service...The union will probably want to introduce pay scales and ranges, but we are waiting to see it.

Once the collective agreement had been negotiated, it conformed very much with the customs and practice of other collective agreements in Singapore.

Like Foodco Australia, industry characteristics, as an external environmental element, could arguably have had an impact on compensation design in the subsidiary. The affiliate was located close to its sources of raw material supplies, which were subject to price fluctuation. Its main exposure to change, however, was in the need for new flavours of its output for new retail products manufactured in Australia. The process technology committed the affiliate to a pay-for-skill compensation for the technicians/operators to maximise flexibility. While the size of the factory was smaller than that of the case plant in Australia, its place in the supply chain made it a focus for Australian head office attention, especially in the use of expatriate managers and the salaries of the plant management team. While the Australian head office monitored collective agreements of Foodco Singapore, the agreements were based on the local environment. There was a more ethnocentric approach to the performance assessment of the managers.

Differences and Similarities in Foodco Australia and Foodco Singapore Compensation

The main differences and similarities between operator, clerical and managerial compensation in Foodco Australia and Foodco Singapore are summarised in Table 8.8. As well as many other elements, Table 8.8 presents the total number of Algorithmic and

Table 8.8
Comparison of Compensation Systems in Foodco Australia and Foodco Singapore

Foodco Australia	Foodco Singapore
General Organisation Factors	
Large scale	Small scale
Process production	Process production
Capital intensive	Capital intensive
Unionised	Unionised
Three unions	Single union
Strong HR function	No HR function
Relatively flat structure	Relatively flat structure
General Compensation Features	
Common managerial grades	Individual negotiation for managers
Site agreements and structures	One collective agreement
Operator Compensation	
Algorithmic (8A*;5E*;1A/E*; 2unknown; 3 not applicable)	Experiential (7A*;10E*; 1A/E*; 1 not applicable)
Skill-based	Skill and length of service
3 grade structure	3 grade structure
No variable component	High variable component
Site agreement not registered with AIRC	Collective agreement registered with the IAC
No performance appraisal	Performance linked to pay
H&L** recommendation? 5 yes; 8 no;.	H&L** recommendation? 11 yes; 1 no.
Clerical Compensation	
Algorithmic (11A*;5E*; 2A/E*; 1 not applicable)	Balance of A/E* (8A*;8E*;2 A/E*; 1 not applicable)
Based on job and skill	Based on job and skill
No payment for length of service	Annual increment for service
Performance appraisal not linked to pay	Performance appraisal linked to pay
Site agreement not registered with AIRC	No site agreement
3 grade structure	No structure
No formal job evaluation	No job evaluation
No variable pay	Individual and corporate bonuses
H&L** recommendations? 5 yes; 8 no.	H&L** recommendations? 9 yes; 1 no; 1 partly; 1 unknown
Managerial Compensation* **	
Algorithmic (12A*;5E*; 2A/E*)	Marginally Algorithmic (10A*;8E*; 1A/E*)
Job based pay	Job based pay
Australia-wide salary structure	Individual negotiation
8 grades	No structure
Performance linked to pay	Annual review and merit rise
Local company profits and sales bonus for some	Local company bonus
No payment for length of service	No payment for length of service
H&L** recommendations? 8 yes; 4 no; 1 unknown	H&L** recommendations? 8 yes; 3 no; 1 unknown

Notes:* A is Algorithmic. E is Experiential. A/E is Algorithmic/Experiential. As used in the Gomez-Mejia and Balkin (1992:61) Summary Profile of Experiential and Algorithmic Compensation Patterns.
** H&L is Hodgetts and Luthans (1993b) *** Excludes expatriate staff

Experiential features for each of the compensation systems in Foodco Australia and Singapore extracted from Tables 8.2, 8.3 and 8.4. To ensure a more overall valid comparison of the Algorithmic(A) and Experiential(E) patterns in the affiliates, the comparison can be restricted to only those *common* compensation features for which data were available and applicable in both subsidiaries. The results are shown in Table 8.9.

Table 8.9
Total of Algorithmic (A) and Experiential (E) Compensation Features for Foodco Australia and Foodco Singapore as at 1995 – Selected Common Features Only

Number of Algorithmic(A)/Experiential(E) Features						
	Foodco Australia			Foodco Singapore		
Operators	8 A	5 E	1 A/E	5 A	8 E	1 A/E
Clerical	11 A	5 E	2 A/E	8 A	8 E	2 A/E
Managerial	12 A	5 E	2 A/E	10 A	8 E	1 A/E

Restricting the Algorithmic and Experiential classifications only to those selected common features for which data were obtainable and applicable, Table 8.9 indicates predominantly Algorithmic profiles for the operators', clerical and managerial pay systems in Foodco Australia. By comparison, Foodco Singapore functioned with an Experiential system for its operators, a balance of Algorithmic and Experiential for its clerical staff, and a marginally Algorithmic compensation profile for its managers. The comparison of the overall profiles for the pairs of the three compensation systems in each affiliate given in Table 8.8 shows that each pair of pay systems is different. This issue will be revisited later in the thesis.

In relation to the initial research questions, we can distinguish the effect of legislation on unionised operating staff first. The Singaporean Employment Act set the minimum standards for Foodco Singapore. Both Foodco Australia and Foodco Singapore paid the same rates for males and females, although only Australia has EEO legislation. It is unlikely that Australian organisations could discriminate by paying foreign workers less than local employees. Foodco Singapore had to restrict the size of the AWS to one month, as specified in the Singaporean Employment Act, as its agreements were recent ones, and both plants had mandatorily to pay either CPF (in Singapore) or superannuation in Australia. Through the tightness of the labour market and the product market, the economy indirectly affected the level and composition of pay in Singapore and the level of compensation in Australia. The level of income for the Australian employees was reviewed more regularly than for those in Singapore, although the latter's rewards were adjusted by annual bonuses.

In Australia, the NWC cases were not directly linked to the pay increases of the unionised employees, but adjustment of the federal industrial awards by tribunals fixed a minimum set of conditions for Foodco Australia. In Singapore, with Foodco unionised, the NWC guidelines were used as negotiating guidelines by the Union. The Singaporean plant had obviously acted on requests by the NWC to keep a certain portion of pay at risk. The direct association of compensation design to national culture was not perceived by the interviewees and was challenged, as usual, by the significance of the industrial relations factors. In Foodco Australia, the salary system for the unionised operating staff had only three grades and was fairly flat which would conform to a low Power Distance society (Hofstede, 1980). But the Australian high Individualism was not reflected in the fixed point salary structure without incentives. In Foodco Singapore, the differences in salaries between grades was high, which suited the high Power Distance Singaporean culture (Hofstede, 1980) within this category of staff. However, the difference in salaries between the operators and the managers was unknown. The emphasis on individual and corporate performance pay was appropriate for a weak Uncertainty Avoidance culture, as measured for Singapore, and the seniority increments and corporate bonuses were in line with the Hodgetts and Luthans (1993b) compensation recommendations for a low Individualistic culture.

In both subsidiaries, the industrial relations system had an important role in the design of the unionised staff compensation. The involvement was more formal at the Singaporean plant in that agreements were registered, but the Australian plant still negotiated with local representatives and exchanged letters of understanding with full-time union officials.

Through a deliberate policy of minimising the unions' role, Foodco Australia appeared to have more freedom in the design of its structures, whereas the Singapore plant had a structure which accorded more to the local norm of a collective agreement.

With regard to the clerical employees in Foodco Australia and Foodco Singapore, the effect of employment law on compensation was similar to that of the operators. The minimum requirements of the Employment Act and the inclusion of the AWS provided the floor in the setting of individual contracts in Singapore. Clerical staff in Foodco Australia were paid via an informal three grade structure where the clerical award system formed the basic conditions in addition to equal pay and superannuation legislation. The state of the labour market, however, had a major effect on compensation paid. Foodco Singapore aimed for the top 25 per cent position in the market, and the Australian affiliate paid well over the minimum clerical award rates. National culture was not seen as a major determinant of compensation design in either subsidiary. The Hodgetts and Luthans (1993b) recommendations were not supported in general in Foodco Australia for clerical staff mainly because of the affiliate's lack of a pay-for-performance emphasis. By contrast, the propositions for compensations in a national culture like Singapore's were strongly supported by Foodco Singapore's pay designs.

The impact of the industrial relations system on clerical compensation in both subsidiaries differed because clerical staff in Foodco Singapore were non-union, whereas Foodco Australia had signed site agreements in the form of an exchange of letters with union representatives. While the salary structures were still informal, the agreement meant that the subsidiary had to at least match or exceed state and federal award conditions.

For the managerial compensation in Foodco Singapore and Foodco Australia, employment law in both countries had a similar modest impact on compensation design as staff were on individual contracts. The Singaporean and Australian companies paid compulsory CPF and superannuation contributions respectively and Foodco Australia had to observe state legislation such as long service leave as well as equal pay principles. The biggest impact had been FBT which caused a review of benefits in the Australian affiliate.

The labour market dominated the level of pay as both subsidiaries worked hard to preserve external competitiveness through the study of economic indicators and use of surveys. The economy affected bonuses paid to Singaporean and Australian managers because of their link to sales and profits, although the Singaporean bonus was later associated with local performance. While interviewees did not associate managerial compensation design with dimensions of the national culture, the pay design in both subsidiaries supported the Hodgetts and Luthans (1993b) recommendations.

Finally, the similar employee benefits offered in the two Foodco subsidiaries are shown in Table 8.10.

Table 8.10
Common Employee Benefits in Foodco Australia and Foodco Singapore

Common Benefits for All Employees* in Both Subsidiaries	Common Managerial* Benefits in Both Subsidiaries
Examination leave	Annual leave
Group personal accident scheme	Compassionate leave
Hospitalisation leave	Dental treatment allowance
Long service awards	Hospital benefits
Long-term illness leave	Long service awards
Maternity leave	Long-term illness
Paid annual leave	Maternity leave
Paid compassionate leave	Share ownership provisions
Paid paternity leave	Sick leave
Paid public holidays	Study leave if job related
Retrenchment benefit	
Share purchase	
Shift premium	
Sick leave	
Term life insurance scheme	
Uniforms/caps laundry service	
Union education leave	

Note: *Excludes expatriates

As with the Oilco case studies, the provision of employee benefits in Foodco was a function of external factors such as legislation and internal factors such as company culture. The benefits unique to unionised employees in Foodco Australia were blood donor leave, first aid, protective clothing, footwear and gloves, jury service leave, lockers, and provision for a rest room for female employees. The death benefit was part of the superannuation scheme. The collective agreement for Foodco Singapore had provisions for transport allowance, marriage leave, compassionate grants, union officials' one day holiday, death benefits, hospital and dental benefits and a union welfare insurance scheme. A Festive Loan/Advance was also permissible.

Managerial benefits also seemed more generous in Singapore than in Australia and Foodco Singapore managers were entitled to specialist surgery assistance, paternity leave, life insurance, and funeral leave benefit. By contrast, the Australian counterparts enjoyed some mobile phones and extra provision of cars.

The main difference between the two subsidiaries was again the provision of health, hospital and dental cover for the unionised staff. Because of the cost of running cars, transport allowances were paid, and as CPF is not a life insurance policy, Foodco Singapore insured confirmed employees under a Group Personal Accident and Term Life Insurance Scheme. Contributions to the Union's Welfare Insurance Scheme also ensured that employees were compensated for long-term disability. Australian superannuation provisions would usually cover such eventualities. The main conclusion was that both subsidiaries were paternalistic in culture and that this was reflected in the provision of benefits over and above the minimum needed to meet legislative and a 24 hour process operation requirements.

Conclusion

In using the Foodco case study for the development of an explanatory framework and set of propositions, and comparing this with the Oilco case of the previous chapter, a number of common features start to emerge. The first is that both subsidiaries of Foodco had more than one compensation system (seven in Foodco Australia and four in Foodco Singapore). The central guiding research question then becomes how the external environment may influence each of these systems. The second is that the effect of employment law on a subsidiary will depend on the range of law in a country and the discretion which a MNE has to use the law to its best advantage. Parts of the legislation in both countries and legally binding industrial awards in Australia provide minima which the affiliates have to observe. The MNE can decide to exceed the minima in order to exclude unions, to be more competitive in the labour market or to be seen as a good, and perhaps paternalistic, employer. Employee benefits were an example in this case study. Other legislation may affect all compensation systems rather than just a few. Thus FBT in Foodco Australia caused the affiliate to review its benefits in the same way as that of Oilco.

The macro economy again had more impact on the level of pay than the structure of the compensation systems. Both subsidiaries were active in establishing a preferred level of pay in the respective occupational labour markets. Foodco Australia did not always follow market trends, and, in its clerical compensation strategy, sometimes accented its paternalism rather than high pay. Incomes policies manifested in decisions and recommendations of the National Wages Council and the AIRC offer discretion to a MNE based in Singapore or Australia respectively to follow or ignore those decisions and recommendations. This discretion is reduced if an MNE is unionised because unions may use decisions or recommendations as levers in bargaining situations.

Like Oilco, the design of compensation systems in Foodco could not be directly attributed to national culture. There is the difficulty of distinguishing national culture per se from other variables that might affect pay structure. This is particularly the case when a subsidiary becomes unionised and adopts the host country form of agreements (Foodco Singapore), as opposed to a HRM strategy of minimising the union role (Foodco Australia). While it could be argued that the effect of national culture may be more apparent in occupations at the upper levels of organisations where staff are not unionised, and where management has more discretion in design, the Hodgetts and Luthans (1993b) propositions were well supported in Foodco Singapore for non-managerial as well as managerial occupations — a similar outcome to that of Oilco Singapore. Significantly, the Hodgetts and Luthans propositions were not supported in the operating and clerical compensation systems of Oilco Australia and Foodco Australia, whereas the propositions were supported for the managerial compensation in the Australian units of both MNEs. Clearly, factors other than national culture must be more influential.

Common in both cases so far was the major impact of the industrial relations systems in compensation design. Industrial relations legislation indicates the rights of MNEs with regard to union recognition and the type of collective agreements permissible in the industrial relation system. The union structure also determines how many unions are likely to gain representation in a subsidiary and thus possibly the number of different compensation systems that will result. Like Oilco Singapore, Foodco Singapore could operate with one collective agreement. Foodco Australia, like Oilo Australia, had to deal with more complex industrial relations scenarios but adopted a strategy to minimise the external involvement of unions. The introduction of unions into a subsidiary has a marked effect on formalising the conditions of service, as can be seen in the Foodco Singapore case.

As another external factor, the industry characteristics of the food sector had a direct effect on compensation design. Foodco Australia and Foodco Singapore were in a highly competitive seasonal business requiring manufacturing efficiency and high quality. This external environment affected the internal variables of competitive strategy, organisation and HR practices. Internal variables like the technology used in the two plants encouraged the use of pay-for-skill systems for operators as flexibility between machines was required. It may thus be that technology is a bigger influence on pay system convergence than is national culture. The high profile brand recognition of Foodco products arguably made the MNE aware of its reputation in the market place as an employer, although its paternalistic culture is also attributable to its founders.

Table 8.8 showed that Foodco Australia and Foodco Singapore had a mixture of Algorithmic and Experiential pay patterns (Gomez-Mejia & Balkin, 1992). Foodco Singapore had more Experiential features than Foodco Australia for each of the three occupations analysed mainly because of the higher risk components and links to individual and business unit performance. No converging of the pay systems of the two subsidiaries seemed likely in the future, according to the interviews held. That there were differences between the subsidiaries shows that Foodco did not operate with universally similar cross-national pay systems. The European corporate head office adopted a polycentric international orientation, whereas the Australian head office adopted both polycentric and ethnocentric approaches towards Foodco Singapore. The Singaporean affiliate had scope to negotiate its own collective agreements, while keeping the head office informed of progress. The approval of Singaporean managers' and expatriates' salaries, however, finally rested in Australia. Managerial bonuses were originally tied to Australian performance. Like Oilco, control of pay was more direct for the higher level staff. As Foodco Singapore was a direct supplier to Australia, one might expect firm control over labour costs. However, the siting of the Regional Office alongside the Singaporean factory, and the linking of managerial bonuses to the Singaporean unit's performance, suggest that the Australian subsidiary national office was adopting a more autonomous approach towards its subsidiaries.

The discussion of Oilco and Foodco so far therefore indicates that any explanatory framework of MNE subsidiary compensation needs to include the different international orientation of head office towards different elements of compensation, preference for standardisation or non-standardisation of professional and managerial compensation structures between subsidiaries, the propensity for head office control of expatriate and top managerial packages, the reflection of MNE corporate culture in compensation provided in affiliates, the delegation of authority to regional offices, the opting in or out of the formal industrial relations system, and a combination of internal and external environmental factors influencing subsidiary compensation. In addition, there has to be recognition that affiliates normally have more than one occupational pay system, and that the external environment may vary in its impact on each. The external environment is already demonstrating that its elements such as government ideology, legislation and industrial relation systems are intricately interlinked.

CHAPTER NINE

THE BUILDO COMPANIES

Buildo Australia

Company Background of Buildo Autralia

Buildo Australia was one of three medium-sized companies in a specialised building products business unit. It reported to the General Manager of the Building and Industrial Products Division in the huge steel sector of the MNE. Buildo Australia had manufacturing plants and regional offices in five mainland capital cities and an extensive network of regional sales offices throughout Australia. Its origins dated back to 1928 as a supplier of steel building products with several different owners over the years. From 1987 to 1988, an Australian conglomerate owned it for 12 months, but it was then purchased by the corporate Buildo MNE in 1988. The link to the main MNE is shown in Figure 9.1.

Figure 9.1
Relationship of Buildo Australia to Corporate Buildo

Corporate Buildo MNE
|
Steel Business
(with 8 divisions)
|
Building and Industrial Products Division
|
Specialised Building Products Group
(3 companies recognised as one business unit)
|
Buildo Australia
(as one of 3 companies in this sub-group)

The Building and Industrial Products Division was formed in February 1992. Buildo Australia was 100 per cent owned by the MNE Buildo and had no separate board of directors. For the purpose of this study, Buildo Australia was the only company studied, but the head office for the Specialised Building Products Group controlled Buildo Australia and two other companies. Buildo was considered part of the steel industry and linked its pay to the industry, but it was not a steel works. It had 59 sites around Australia which ranged from offices of 2–3 people to manufacturing sites with

200 people. Manufacturing sites were based in Queensland, New South Wales, Victoria, Western Australia and South Australia. The Queensland manufacturing site was selected for this study.

Organisation of Buildo Australia

The management structure for Buildo Australia in 1992 is provided in Figure 9.2.

Figure 9.2
Management Structure of Buildo Australia as at 1992

General Manager
|
Building and Industrial Products Division
|
General Manager
Special Building Products Group
|
General Manager and
Regional Manager
Buildo Australia---- General Managers of the other 2 companies in the Group
|
Other 4 Regional Managers

During 1995, the senior management of the Special Building Products Group was reorganised and decreased to four regional managers who were responsible for all three companies of the Special Building Products Group. Some functional managers for the three companies were relocated to a combined headquarters in Sydney. Figure 9.3 shows the management structure as at 1995.

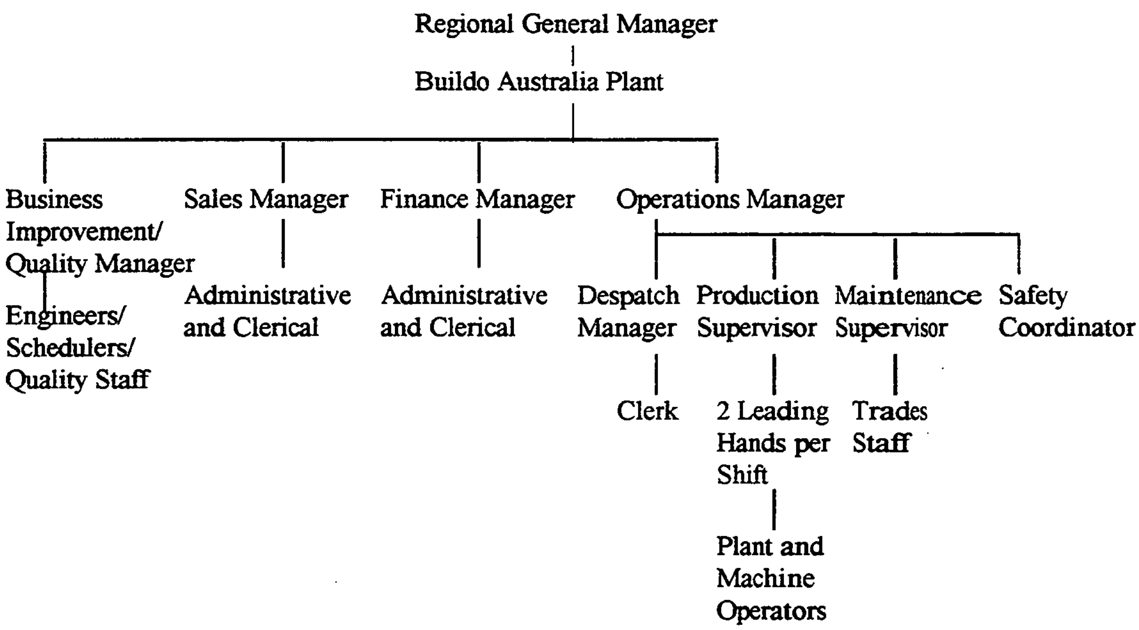
Figure 9.3
Management Structure of Buildo Australia as at 1995

General Manager
Building and Industrial Products Division
|
General Manager
Special Building Products Group
|
Regional General Manager for 3 companies---3 other Regional Managers
|
Buildo Australia Managers at the plant
(Quality, sales, finance and operations)

At head office were the functional managers responsible for the three companies in the Special Building Products Group, namely: Human Resources, Finance, Technical Operations, and Marketing.

Figure 9.3 shows that a Regional General Manager had responsibility for Buildo Australia and two other companies. The Human Resource Manager was based at the Group head office in Sydney and acted as a resource for the three companies in the business unit. The Regional Manager combined the management of the region in which the case study Buildo plant was based, with the management of the Buildo Australia plant. The organisation structure for the plant in Figure 9.4 depicts four senior managers, with the Operations Manager supervising dispatch, production, maintenance, and safety. His department included two leading hands for each shift and plant/machine employees.

Figure 9.4
Organisation Chart for Buildo Australia as at 1995



By the end of 1995, the workforce was 47 staff employees and 53 wages staff. It consisted of managers, professionals, para-professionals, trades personnel, clerks, sales and service employees, leading hands and plant operators. The Buildo Australia plant was moving towards replacing leading hands with team leaders. Because of the predominance of males in the plant and mechanical area of production, the percentage of females in Buildo was just under 15 per cent. The ethnic composition of the workforce reflected the local population, which was mainly Australian with a small percentage of Asian employees.

Production Technology of Buildo Australia

Buildo Australia manufactured reinforcing products for concrete. The customers' specifications were translated by schedulers into a schedule of the sizes, lengths and shapes of the specified reinforcing material. The reinforcing schedules were then converted into cutting lists for processing in the factory. The company could handle any construction project no matter what the size, and also stocked a full range of reinforcing accessories. The major products were done on a made-to-order basis from engineering drawings. A range of standard sizes was produced, but non-standard sizes were also manufactured on request. The main equipment used in the manufacturing operation was bending machines and mesh machines. The technology, apart from the advanced computer equipment, was not highly complex. Entry costs to the industry were low. Production workers carried materials to a machine, did the operation and returned the product to a distribution area. Materials handling was therefore the biggest item in measuring efficiency. The technology was unlikely to change in the future as the company was making materials to fit building projects. Labour costs only made up 10 per cent of total costs. Material costs were about 80 per cent and 10 per cent was spent on the remaining overheads and operating costs.

Buildo Australia had about 40 per cent of market share and was directly affected by the state and cycles of the building industry. The company worked in a national market, most of which was private building companies. Products were delivered direct to building sites and to distributors and retailers. Builders could also buy from the factory door. Production could range from long runs to a small order.

Mission and Objectives of Buildo Australia

Buildo Australia had a mission statement which was 'to be the recognised leader [in Special Building products] ... , to maximise return on investment ... ', and to place high priority on safety, customer service, innovation, quality of staff and continuous improvement in productivity. The corporate objective was to be the number one company in the industry by greater efficiency, low cost production and distribution, and good customer service. It would do this by looking at other uses for its products and making other building products.

The company worked on a seven-year projection and had annual business plans. These business plans cascaded down into each area. Included in the business plan were general objectives about staffing and plans for workplace reform. In terms of the market, the key factor was price as the products from competitors were very similar, but customer service could also differentiate a product. However, most big projects went out to tender from the builders to the manufacturers. Reliability was a factor, although if weather was inclement, builders did not necessarily want delivery on the date first suggested.

HRM/IR Organisation of Buildo Australia

General corporate Buildo MNE policies included a formal statement on HRM. The executive interviewed stated that corporate Buildo MNE probably did not make much impact on the company, but there was a realisation that Buildo Australia was part of the corporate MNE operation. There was an emphasis on matching the skills to the technological requirements. A greater emphasis on people management was being seen in the Buildo MNE and senior management were expected to have good skills in this area. In terms of formal HRM objectives, the company had listed key HRM issues. These included the devolution of management responsibility and continuing emphasis on occupational health and safety. Each manager had performance goals that included occupational health and safety standards. HRM objectives were usually part of the business plan.

HRM procedures in the Buildo Australia operation were both formal and informal. The corporate MNE imposed some formal review requirements on the company (e.g. career histories for each employee). In 1992, the company was installing a human resource management (information) system; recruiting and training were done on an ad hoc basis and the location of the company created problems in organising training. The management/employee relations were good but at that time, the salary system was somewhat informal. As noted earlier, the Human Resource Manager was based in the Group Head Office located in Sydney away from the Buildo Australia factory. There was no HRM specialist in the Brisbane Buildo Australia factory. Leave records, occupational health and safety issues, staff numbers and similar operational HRM was performed by factory staff.

The specialist HR Manager in the head office for the three companies in the group was appointed in 1991. Prior to this, there was no HRM specialist and the people management function was focused on the line manager; the specialist has no intention of changing this. The HR Manager provided advice, policy background, 'protection from corporate [Buildo MNE] policy', and a monitoring/coordinating role on pay and HRM systems. The special building products HRM specialist had a 'dotted line' relationship to the steel HRM specialists, which was particularly necessary because of the common managerial pay systems across the steel sector.

Unionisation of Buildo Australia

Only wages employees were unionised, and Buildo Australia had a preference clause[1] in its award for union members. Staff employees were not unionised. The main union was the AWU-FIME Amalgamated Union[2] (AWU-FIME), although there were a few members of the Automotive, Food, Metals and Engineering Union (AFMEU). Union membership was not compulsory, although the company operated a check-off system. The factory had shop stewards, and committees were set up to assist in the implementation of restructured awards, but the plan at the time of the first interviews in 1992 was to negotiate an enterprise bargain which would eventually cover all employees on site with the objective of pulling wages and salary conditions together. Although there was no formal bargaining infrastructure in Buildo, the first enterprise agreement was achieved in 1993 and had been updated regularly by the end of 1995. By then, there was still no formal negotiating committee as the company had an 'anti-committee' policy. Line managers were expected to make decisions and deal with grievances. The trade union might or might not get involved officially, and the Group Head Office Human Resources Manager only got involved in an issue if it was a major one e.g. a dismissal. Staff relations in the company were good, perhaps because of the small size of the operation.

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[1] A preference clause in an award places an obligation on an employer to give preference to a union member over a non-union person in selection of staff and can also apply in cases of retrenchment. Under recent legislation passed by the conservative Liberal/National Government, this practice is now illegal.

[2] The full name of the amalgamated unions was The Australian Workers' Union - Federation of Industrial, Manufacturing and Engineering Union.

Industrial Staff Compensation in Buildo Australia

The compensation of the industrial employees in Buildo Australia could be analysed in two periods: pre- and post September 1992. The pay of the industrial employees on the Buildo Australia site studied had been dominated by the federal Metal Industry Award (1984) (AIRC Print F4869), an award that covered the operators and trades staff. Transport was not included under award coverage as this was contracted out by the company, as were special engineering services and office cleaning. The Buildo factory had been on its present site for more than 20 years as at 1992, and the policy of the previous company owners had always been to pay single-point award rates (with no over-award payments). Only the tradespersons were paid above the award in the state. This policy varied across the company sites in other states, as they usually had to pay above the award wages to attract and retain staff. The negotiations for revising the Metal Industry Award were left to employer associations, but the company seriously considered its own award because of the general nature of the federal Metal Award. When a change to the federal award was made, Buildo paid this, but restructuring of the award into 14 new classifications in 1989 created some difficulties. With the AIRC National Wage Case recommended A$10 plus 4 per cent rise in 1987, there were some efficiency changes, but these were of a fairly minor nature and did not affect work demarcation areas. According to the manager interviewed, the workforce had always operated on a flexible basis for many years.

The Metal Industry Award (1984) is a comprehensive benchmark award in the Australian industrial relations system, and is used in a technical way to generate a 'paper dispute' for a NWC hearing. Its 348 classifications were allocated to about 50 different wage groups, which showed a base rate per week and a weekly supplementary payment. The rates varied for each state, but, surprisingly, only by a few dollars per week. At the mid-point of the 50 pay rates were the machine operators for reinforcing products, bending machine operators, general machine operators and machine assistants. In the award, instrumentation and controls tradespeople gained the highest rates, followed by the fitter tradespeople. Other conditions of employment were stated in detail including termination of employment payments, annual leave, bereavement leave, boiling water at meal times, crib time (paid breaks), drinking water, payment during jury service, and provision of lockers. There were no annual increments or provisions for length of service.

Before September 1992, no incentives such as piecework or group bonuses were paid by Buildo Australia, and prior to the restructuring of the Metal Award in 1989, the company just used the relevant classifications. Now that the award has been restructured into 16 wage groups, only three levels of the Engineering Production Employee Classifications were used by Buildo Australia — C13 (82 per cent of the C10 Engineering Tradesperson Level 1 rate), C12 (87.4 per cent), and C11 (92.4 per cent). These single fixed rates commence at the entry basic grade (C13 Engineering Production Employee Level 2), where the selection criterion is basic literacy. Two other skills levels (C12 and C11 Engineering Production Employee Levels 3 and 4) are then available. The operator position had a standard career path and any advancement beyond this had to be outside the organisation. On-job training was provided. Employees could be trained within one month and were trained to use a number of pieces of equipment. Shift allowances were paid according to the award. Leading hands were 'working leading hands' and received a percentage of the highest rate of pay of persons supervised depending on the number of people supervised. Staff worked a 37½ hour week but this varied around the sites of the whole Buildo company. A two shift system operated and no overtime was worked in 1992; it was usually very carefully controlled. When the building industry was booming, overtime was used. Employees were paid weekly in cash at an hourly rate. Some casual staff were used because of the cyclical nature of the business, but there was limited use of part-time staff.

The labour market for the plant was very flat in 1992. A good supply of tradespeople was available, and the Buildo factory had some long serving employees. However, when the economy boomed, the Buildo sites suffered high turnover. It was therefore necessary to pay above the award for tradespeople because the factory was in a highly industrialised area. Penalty rates were paid according to the award.

During 1992, Buildo Australia negotiated an enterprise agreement under the AIRC National Wage Principles and legislation at that time. It was ratified by the unions in September 1992 and by the AIRC in January 1993 for a period of seven months. It applied to all the Buildo Australia sites in the state in which the plant was located, and was called a Performance Improvement Payment Scheme (PIPS) Award. The award covered all industrial staff and supplemented the Metal Industry Award. It did not affect the Metal Award structure; the company still paid on the Metal Award and the classifications included in that. The new award stated that PIPS 'is a scheme which proposes quarterly payments in recognition of achievement of previously agreed targets of improved performance'. A TQM initiative had been running in the company since 1990 and the PIPS was aimed at reinforcing this. For the plant analysed, two Key Performance Indicators (KPI) were set, the first being the Variable Conversion Cost/Tonne produced, which included all compensation and overtime costs, the cost of freight inwards and outwards and the cost of scrap. The second KPI was Customer Service, based on the number of controllable credit notes and complaints. Benchmarks for KPI performances were set and then figures calculated for each quarter. The factory's performance was assessed quarterly and could be judged 'outstanding', 'good', 'adequate' or 'poor' according to its score on a performance target matrix of the two KPIs. A poor performance on both KPIs would not generate any bonus in a quarter, but a poor performance on one KPI combined with an outstanding performance on the second KPI would warrant a 3 per cent bonus of the gross wage for a quarter. An 'outstanding' performance on both KPIs would provide a 5.5 per cent bonus.

A new PIPS agreement was made in 1994 and ratified by the AIRC in March of that year. This was to remain in force until 31 May 1995. The PIPS still had to be implemented in conjunction with the parent Metal Industry Award. The intention of the new award was 'to build on the gains made to date as part of the continual improvement'. The KPIs were increased to three: Direct Variable Costs/Tonne of product, Administration Costs and Absenteeism, with the four levels of performance and a quarterly bonus. Because of the extra performance in the factory, a 4 per cent rise was incorporated into the weekly wage, paid in two instalments. With an 'outstanding' performance on the three KPIs, a bonus of 6.5 per cent was possible. A 'poor' performance would not generate any bonus. The PIPS agreement stated that both parties wished to continue the concept of the scheme after its expiry and would commence negotiations in the second year of its operation.

Although beyond the cut-off date for the case, negotiations in 1995 resulted in a new enterprise agreement in March 1996, which lasted until December 1996. This was registered with the AIRC. While the agreement applied to the Buildo Special

Products companies, individual issues were decided for each plant. The purpose of this award was to improve productivity, costs and service by developing a more skilled and flexible workforce. The HR Manger interviewed spoke of the need to start 'a cultural change process' and 'to get employees involved'. It was agreed that the parties would work together towards annualised salaries and a team structure. It was also agreed that a 'consultative mechanism' would be set up in the plant to discuss matters of efficiency, customer requirements, training and productivity, with meetings to occur as necessary. Hours of work were fixed at 38 hours per week and the minimum base rates of pay were fixed based on the C13 point of the Metal Industry Award for Trainees, C12 for Operators and C10 for Technicians. The new agreement was a minimum rates award and rises exceeded those of the Metal Industry Award. Skill requirements for each section were determined by the management, employees and union, after which the employee could continue to train for extra skills and be paid extra for them. The PIPS was retained with quarterly bonuses payable on achievement of Key Performance Indicators.

In summary, the basis for pay for industrial staff up to 1992 was the job to be done, paid on the appropriate classification of the Metal Industry Award. There were no incentives, individual performance appraisal or gain-sharing schemes. When the federal Metal Award was restructured, and the classifications broadbanded, a new emphasis was placed on the skills and training needed for each pay-band and flexibility of working. After 1992, the Metal Award classification rates were supplemented by bonuses from a PIPS. The first enterprise agreement reflected the collective performance of the workforce rather than individual contribution, but the aim, said the interviewed manager, was to move towards 'treating people as individuals'. The 1996 agreement included an individual supplement for skill. No financial recognition of seniority was made but a watch was given after 25 years service. Prizes were given for safety campaigns and reaching safety targets. The Metal Award was thus the basis of the pay system together with a combination of plant wide incentives and individual skill allowances for its industrial staff. External rates of pay were not a major issue for the company except in times of high turnover.

Staff Compensation in Buildo Australia

Buildo Australia distinguished between managerial, staff and industrial employees. State managers were designated as management level and the level below this, staff. As at 1992, the state Clerks' Award was used as the basis for compensation for some clerical jobs. The general philosophy for payment of staff employees was on individual performance and at the 75th percentile of the rates of competitors. 'But this position is only held for a short time as everyone raises salaries' suggested the manager. The objective was to attract and retain good quality employees. Staff jobs were graded within a six-grade structure. In 1992, there were no written definitions of the grades, but by the end of 1995, brief general descriptions of competencies and typical jobs at each level had been formalised. The company operated on a comparative basis with salary ranges. People moved through the range according to performance and experience. The salary range had a 'minimum and maximum point', with 100 per cent being the mid-point to indicate some competency in the position. The structure used the principles of Hay, but was not exactly identical, using the 'know-how' factor only as the main criterion. A performance review was done for each member of staff at the end of the business year (at the end of May). This affected salary, and any amended salary started as from 1 December each year. The manager made a decision on salary, which was examined by the Human Resources Manager at Head Office. The lower end of the ranges usually moved up with AIRC National Wage Case (NWC) increases (if any) and salary market surveys. With the NWC now less significant in national pay rises, staff employees now got one major salary review per year. The review was based on performance and market surveys. Hay Consulting and the Canberra Management Conference surveys were used as indicators together with local labour market trends.

Employees covering the Sales, Commercial, Production and Scheduling areas were also included in the six-grade structure. With one common structure, everyone was seen as contributing equally and being rewarded equally. Negotiations on salary were conducted on a one-to-one basis. There was no staff association, so the industrial tribunals had no influence on the structure except for the past National Wage Case increases. After the enterprise agreement eventuated, the staff employees received the PIPS lump sums. There was no overtime or special allowances, as the company had a policy of not working overtime and operated on a 37½ hour week. Despatch staff and supervisors work on shift rosters and were paid 15 per cent afternoon shift allowance. Management and staff employees were paid monthly; the rest of Buildo staff were paid weekly. Very few of the workforce in the 'staff' category were employed on a casual or part-time basis.

In summary, therefore, the company paid for the job and performance and not skills, but hoped to develop initiatives in this area. Performance was recognised by progression through the range and through grades. Performance rises might vary between 0–4 per cent. Other general rises were based on the cost of living. Additional income was received through plant performance on PIPS. No allowance was made for seniority except for extra experience, which might be reflected in progression through grades. In 1992, pay for age was only a factor for a limited number of juniors under twenty-one (such as a receptionist and a junior schedulist). By the end of 1995, age-based pay had been removed. No extra income was given for obtaining educational qualifications. The staff were secretive about salaries, but did not have to sign any agreement to maintain secrecy. With Sales staff, there was a big branch network. No commission on sales was paid, but relevant sales people had cars provided. Branches had sales targets and everyone had performance goals.

Managerial Compensation in Buildo Australia

The Executive Group comprised the State Managers and their direct reports. The philosophy of the pay system was performance-based and a common system operated across the Buildo steel sector. A similar policy of maintaining salaries in the top 75th percentile of the market was adopted. This created a slight problem in that the steel sector was dominated by several major steel works rather than building and construction operations. The question therefore was which industry should be surveyed. According to the executive interviewed, 'this is not so much the money paid as much as the kind of car an executive should drive in comparison with similar executives in the building industry'. Pay was reviewed in December of each year based on labour market salary surveys. Up to 1992, expectations for salary rises based on inflation had been 8–9 per cent over the previous 15 years, but then declined to a 3–4 per cent increases because of the low inflation rates.

The compensation system and salary ranges were based on the Hay points formula. Staff moved through the range based on performance. The Hay system was used in Buildo because of the diversity of the company; it assisted managers to move across functions. Before 1985, Hay was common right across the corporate Buildo MNE, but each sector (e.g. petroleum and steel) had a different points range for specialists. The executives were subject to a performance appraisal and had objectives set for a review period. For the General Manager of the Special Building Products Group, an incentive scheme based on the performance of corporate Buildo MNE, the Special Building Products Group, the steel sector and individual performance was used. The General Manager could get 20 per cent of salary as a bonus. A 20 per cent kitty could be divided between the General Manager's direct reports based on their contribution.

In summary, the basis for payment was therefore the job and performance. No credit was given for seniority. In 1992, the company was thinking about broadening of its career structures, but decided to stay with the Hay scheme for the time being as other job evaluation schemes appeared to be derived from this. No extra income was given for additional educational qualifications, but plant management did receive the PIPS lump sum quarterly. Employees were told their salary range but not their Hay points. Salaries were calculated separately from their points. The Hay scheme had therefore become 'somewhat mysterious'. No problem had been experienced with the scheme or with its assessment of females. The concept of careers was being reviewed as levels in the organisation declined. Buildo was encouraging more lateral movement to enable employees to gain broader experience.

Employee Benefits in Buildo Australia

Like other companies, Buildo Australia provided some employee benefits that were common to all employees, and others that were unique to one group only. Common benefits included:

- annual leave
- compassionate leave
- death benefit
- long service awards
- long-term illness
- maternity leave
- paternity leave
- retrenchment benefit

- sick leave.
- study benefits
- superannuation.

The long-term sick leave provisions for staff and managerial staff were extended to all employees between 1992 and 1996. However, management and staff employees enjoyed educational and unpaid leave. A scheme for free health, surgical and dental treatment was provided for staff and managerial employees until 1995, but was withdrawn for new staff after that date because of a change in federal government legislation. By the end of 1995, staff could take a lump sum or pay to go into a contributory private medical scheme run by corporate Buildo. A company car was available for sales and managerial employees, and reimbursement was given for company travelling by staff and clerical employees. There was a tension between the Buildo policy and what the executives would like to have received compared with others in the building and construction industry. This particularly applied to cars, where Buildo policy did not match norms in the building industry. According to the manager, status symbols in the industry seemed to be very important. Some choice of car was available, or monetary equivalent, but the car policy was fairly tightly structured.

The cost of superannuation for all staff was usually excluded from the package because of the complexity in calculating it. As at 1992, the total company and employee contribution for managerial staff was 16 per cent and 8 per cent for the wages employees. Because of the new federal legislation, the superannuation scheme was reviewed. The new scheme consisted of an accumulated sum fund for industrial staff and a defined benefit scheme for staff and management. There was pressure in the company to widen the choice of packages, but Buildo Australia was generally seen as paternal, and it restricted the choice of packages. This compared with other companies in the industry which allowed people to have a major say in the packages obtained. In 1992, business allowances on a range of A$700 to A$5,000, depending on position, were offered to pay for club membership fees, but previous allowances for phone rental and entertainment were rolled into a monthly allowance because of Fringe Benefits Tax. Under the Metal Industry Award, a variety of additional allowances and benefits were negotiated for award staff such as shift and meal allowances, union educational leave, uniforms, acting allowances and call-back pay.

In 1992, about 70 per cent of the employees in the company owned shares in the corporate Buildo MNE. The degree of ownership varied according to department, and was between 50 and 100 per cent. 'This might have something to do with the trust in management across the plant', suggested a manager. All employees could use the Employee Share Scheme. This commenced in 1985, and staff could buy 1,000 corporate Buildo MNE shares per annum with an interest free loan repayable over 20 years. Dividends could be used to pay off a loan. The employee benefits by category are shown in Table 9.1

Relationship of Buildo Australia to Corporate Head Office

This case study differs from that of Oilco and Foodco, described earlier, in that the Buildo MNE is Australian owned. Nevertheless, there was little contact between the corporate Buildo MNE head office and Buildo Australia. There was more liaison with the steel sector head office, but this varied according to the level of the employee. The top management compensation system was common across the steel sector, but the management of staff and industrial employees was very much focused to the plant level, and reflected local labour market needs. According to a manager, '

> [Buildo Australia], as a strategy, tries to keep away from the steel sector as a comparison because they pay much more than the reinforcing side of the business.

The main link with the corporate head office on compensation occurred through the company-wide superannuation scheme, staff health and insurance, and the employee share plan.

The Profile of Buildo Australia Compensation

Three occupational groups were selected for comparison with Buildo Singapore and Tables 9.2 to 9.4 show Buildo Australia's profile for the rewards of industrial, clerical and managerial staff using the Gomez-Mejia and Balkin (1992) Algorithmic and Experiential compensation patterns. The use of the federal Metal Industry Award prior to its restructuring, meant that the Buildo Australia **industrial** staff (Table 9.2) were paid according to their jobs. The restructured award had more emphasis on skills and flexibility. A portion of the employees' compensation was now at risk as a result of the enterprise agreement, although the reward for accomplishment was short-term (quarterly) rather than long-term. account The

Table 9.1

Employee Benefits Profile for Buildo Australia as at 1995

	Industrial/ Blue Collar Unskilled	Skilled	Clerical/ Admin	Sales/ Technical	Professional/ Management	Board
Acting allowance						
Annual leave	✓	✓	✓	✓	✓	
Attendance allowance						
Benefit for overseas assignments						
Business entertainment expenses					✓	
Cellular phones	(1)	(1)	(1)	(1)	(1)	
Co-operative shares						
Compassionate leave	✓	✓	✓	✓	✓	
Death benefit	✓	✓	✓	✓	✓	
Dental treatment			✓	✓	✓	
Early retirement schemes						
External/social recreational club membership					✓	
Festive loan/advance						
Fixed monthly transport allowance						
Free medical treatment/medicine			✓(2)	✓(2)	✓(2)	
Funeral leave benefit						
Hospital ward benefit						
Housing loan				(3)	(3)	
Housing renovation loan						
Laundry benefit						
Long service award	✓	✓	✓	✓	✓	
Long-term illness	✓	✓	✓	✓	✓	
Machine allowance						
Marriage leave						
Maternity leave	✓	✓	✓	✓	✓	
Meal allowance	✓	✓				
Medically board-out benefit						
Other loans						
Paternity leave	✓	✓	✓	✓	✓	
Personal insurance						
Provision of car						
Reimbursement for use of own car on company business				✓	✓	
Retrenchment benefit	✓	✓	✓	✓	✓	
Service benefit						
Shift allowance	✓	✓				
Sick leave	✓	✓	✓	✓	✓	
Specialist surgical fee			✓	✓	✓	
Study leave/benefit	✓	✓	✓	✓	✓	
Superannuation (Australia)	✓	✓	✓	✓	✓	
Transport benefit/allowance/ reimbursement						
Uniform	✓	✓				
Union day leave						
Union education leave	✓	✓				
Unpaid leave			✓	✓	✓	
Voluntary resignation benefit						

Notes:

(1) According to job. (2) Non-contributory. (3) On relocation only.

Table 9.2

Summary Profile of Algorithmic (A) and Experiential (E) Compensation Patterns of Industrial Staff Compensation in Buildco Australia and Buildo Singapore as at 1995

	Buildo Australia Industrial Staff		Buildo Singapore Industrial Staff	
	Compensation Feature	**A or E**	**Compensation Feature**	**A or E**
(a) Basis for Pay				
Unit of analysis	Skill	E	Skill	E
Criteria for pay increases	Performance	E	Length of service and performance	A/E
Level of performance measurement	Individual & aggregate	E	Individual and aggregate	E
Time orientation	Short-term	A	Short-term	A
Risk sharing	Moderate	A (1)	High	E
Strategic focus	Not applicable	-	Not applicable	-
Equity concern	Internal consistency	A/E (2)	Internal consistency	A
Reward distribution	Benefits vary across company	A	Benefits vary across company	A
Type of control	Outcomes (KPIs)(5)	E	Outcomes	E
(b) Design Issues				
Salary market policy	Not known	-	Above market rates	A
Benefits market policy	Not known	-	Not known	-
Incentives in pay mix	Moderate	A (1)	High	E
Total compensation	Low future potential/ higher immediate payoffs	A (3)	Low future potential/ higher immediate payoffs	A
Reinforcement schedule	Multiple rewards	E	Multiple rewards	E
Reward emphasis	Pecuniary	E	Pecuniary	E
(c) Administrative Framework				
Decision making	Decentralised to plant	E	Decentralised to plant	E
Pay disclosure	High (agreement)	E	High	E
Governance structure	Participative	E	Participative	E
Nature of pay policies	General rules applied case by case	E (4)	Strict rules	A
	TOTAL	A = 5 E = 10 A/E = 1 U/K=2(6) N/A=1(7)	**TOTAL**	A = 6 E = 10 A/E = 1 U/K=1(6) N/A=1(7)

Notes: **(1)** The maximum pay at risk was 6.5 per cent. **(2)** The company had a formal structure for internal consistency, but external rates were taken into consideration. **(3)** An employee share ownership scheme was available **(4)** The flexibility was in the assessment of each employee's skill. **(5)** Key performance indicators.**(6)** U/K=Unknown **(7)** N/A=Not applicable

Table 9.3

Summary Profile of Algorithmic (A) and Experiential (E) Compensation Patterns of Clerical Staff Compensation in Buildo Australia and Buildo Singapore as at 1995

	Buildo Australia Clerical Staff		**Buildo Singapore Clerical Staff**	
	Compensation Feature	**A or E**	**Compensation Feature**	**A or E**
(a) Basis for Pay				
Unit of analysis	Job	A	Job	A
Criteria for pay increases	Annual review and performance	A/E	Mainly tenure	A
Level of performance measurement	Individual and aggregate	E	Individual and aggregate	E
Time orientation	Short-term	A	Short-term	A
Risk sharing	Moderate	A	High	E
Strategic focus	Not applicable	-	Not applicable	-
Equity concern	Internal and external	A/E	Market driven	E
Reward distribution	Benefits vary across company	A	Vary across the company	A
Type of control	Individual P.A.	E	Not applicable	-
(b) Design Issues				
Salary market policy	Above market	A	Above 'market' rates	A
Benefits market policy	Not known	-	Not known	-
Incentives in pay mix	Moderate	A[1]	High	E[4]
Total compensation	Low future potential/ higher immediate payoffs	A[2]	Low future potential/ higher immediate payoffs	A
Reinforcement schedule	Annual	A	Annual	A
Reward emphasis	Pecuniary	E	Pecuniary	E
(c) Administrative Framework				
Decision making	Decentralised	E	Decentralised to plant	E
Pay disclosure	Low	A	Low	A
Governance structure	Authoritarian	A	Authoritarian	A
Nature of pay policies	Bureaucratic	A[3]	Case by case	E
	TOTAL	A = 11 E = 4 A/E=2 U/K=1[5] N/A=1[6]	**TOTAL**	A = 9 E = 7 U/K=1[5] N/A=2[6]

Notes: (1) The maximum pay at risk was 6.5 per cent. (2) An employee share ownership scheme was available. (3) There was flexibility to move people through the range at different speeds. (4) For example, 4½ months bonus in 1992. (5) U/K=Unknown (6) N/A= Not applicable

Table 9.4

Summary Profile of Algorithmic (A) and Experiential (E) Compensation Patterns of Managerial Staff Compensation in Buildo Australia and Buildo Singapore as at 1995

	Buildo Australia Managerial Staff		Buildo Singapore Managerial Staff	
	Compensation Feature	**A or E**	**Compensation Feature**	**A or E**
(a) Basis for Pay				
Unit of analysis	Job	A	Job	A
Criteria for pay increases	Overall review plus performance	A/E	Performance	E
Level of performance measurement	Individual and aggregate	E	Individual	A
Time orientation	Short-term	A[1]	Short-term	A
Risk sharing	High	E	High	E
Strategic focus	Group performance	E	Business unit (subsidiary)	E
Equity concern	Internal and external	A/E	External market	E
Reward distribution	Benefits vary across country	A	Benefits vary across company	A
Type of control	Outcomes	E	Outcomes (KPIs)[4]	E
(b) Design Issues				
Salary market policy	Above market	A	Above market	A
Benefits market policy	Not known	-	-	-
Incentives in pay mix	High	E[2]	High	E
Total compensation	Low future potential /higher immediate payoffs	A[1]	Low future potential/ higher immediate payoffs	A
Reinforcement schedule	Low frequency	A	Annual	A
Reward emphasis	Pecuniary	E	Pecuniary	E
(c) Administrative Framework				
Decision making	Centralised	A	Centralised	A
Pay disclosure	Low	A	Low	A
Governance structure	Authoritarian	A	Authoritarian	A
Nature of pay policies	Bureaucratic	A	Case by case	E
	TOTAL	A = 10 E = 6 A/E = 2 U/K=1[3]	**TOTAL**	A = 10 E = 8 U/K=1[3]

Notes:

(1) An employee share purchase scheme was available. (2) By Australian standards (3) U/K= Unknown
(4) Key Performance Indicators

general picture is a compensation system which moved from an Algorithmic to a more Experiential one.

Although the system was informal, the **staff** employees (Table 9.3) were primarily paid on the job they did, although individual performance could affect the annual increment. The annual salary had individual and aggregate performance elements, as the staff employees received the same bonus as the industrial employees based on the KPIs. In general, the system thus seemed to be more heavily weighted towards an Algorithmic system. Finally, the compensation for **senior executives** (Table 9.4) was based on Hay system evaluations of job size but the final reward depended on contribution to the organisation. The level of performance measurement was individual, business unit, and corporate based. The executive compensation fell more towards an Algorithmic profile with its initial focus on job size, but significant incentives gave it strong Experiential features as well.

Buildo Australia Compensation and the External Environment

In assessing the effect of the external environment, legislation was seen by the Buildo Australia Group head office HR Managers as having a major impact on pay systems. She continued:

> The minimum wage of the awards is a constraint, but the FBT had a huge impact when it first came in. Giving managers cars became an effective way of paying people — so was the medical scheme. To encourage people to move, you could give them a low interest housing loan. It was attractive until FBT. However, it is often cheaper to pay FBT and in the end, very few policies have probably changed dramatically. But views on these things change. Superannuation used to be seen as paternalistic. It's now seen as social requirement. The federal government is putting a lot of pressure on pension funds to ensure that their structures fit the legislation.

New corporate legislation on shares distribution in compensation packages affected directors and had to be considered. Buildo was seen as a very paternalistic company, and long-service awards and generous superannuation funds were used to encourage long-term employment. This was now changing.

The economy affected the level of wages and salaries to be paid. As the HR Manager put it:

> When we get booms, we get high turnover. In New South Wales, we have to pay above the award, because the factory is in a highly industrialised area.

In times of high inflation, AIRC NWC and Consumer Price Index (inflation) rises would flow on directly. In addition to levels of employment, the HR Manager said that:

> The ability to pay is important. Buildo is often seen as being profitable, but some parts of the business might not be doing well. Some employees have difficulty in understanding this.

As far as government influence and incomes policies were concerned, the HR Manager suggested that:

> There has been pluses and minuses in the [ALP/ACTU] Accord. The plus was that there has been some predictability about pay in the future.

However, industrial employees tended to be considered first and then performance salary for staff calculated. In recent years, the top-end of the scale had moved more although there had been some thought given to holding back a manager's pay if industrial employees were not getting rises. She continued:

> With the [AIRC NWC] Structural Efficiency Principles, industrial employees had to justify their pay increase, but staff did not have to do anything. The philosophy of the Accord's social agenda probably therefore had more impact than the actual amounts awarded in wage cases [NWCs].

On the changing attitude towards education in industry, the HR Manager stated that:

> There's a trend towards paying for skill in restructured awards for industrial employees. We've tried to run a restructuring model for staff employees, but found this difficult.

The company's view was that they paid people for what they did rather than how they did it. This was a difficult area, however, and from a sociological viewpoint, the executive thought that the Australian ethic was to make people equal, which led to mediocrity. To pay a person a big reward based on performance would not be well received, particularly by a work group. By comparison, the United States had steeper salary lines. Australian lines were flatter, but more cars were provided. There were therefore strong feelings about how much management was earning, and this was linked to respect for authority. Buildo was now accepting that money was no longer the only motivator. For some staff it was, but the larger MNE was stressing recognition as a motivator as well.

From another perspective on national culture, Table 9.5 shows the extent to which the Hodgetts and Luthans (1993b) recommendations for pay systems for the Hofstede (1980) cultural dimensions for Australia were supported by the Buildo Australia compensation systems. There was slightly more conformity with the recommendations in the clerical and managerial pay systems than in the industrial

Table 9.5

The Hodgetts and Luthans (H&L) Recommendations for Compensation in Australia as Reflected by Buildo Australia

AUSTRALIA				
Hofstede Dimension Index	**H&L Recommended Compensation**	**Industrial Staff Compensation**	**Clerical Staff Compensation**	**Managerial Compensation**
1. Moderately low Power Distance	• Low salary gaps between lowest and highest paid • Low benefits gaps • Gain-sharing • Profit-sharing	Yes within award. Across company unknown No – different across company Yes No	Unknown No – different across company Yes No	Unknown No No Yes
2. High Individualism	• Individual performance based • External/equity competitiveness • Short-term achievement	No Yes Yes	Yes Yes Yes	Yes Yes Yes
3. Moderately high Masculinity	• Few family benefits • Gender pay differences	Yes No	Yes No	Yes No
4. Moderately weak Uncertainty Avoidance	• Emphasis on performance • Sharing of risks associated with MNE's success or failure • Competitive salaries to avoid poaching of staff • Decentralised pay policies	Yes No Partly Yes(3)	Yes No Yes Yes(3)	Yes Yes Yes No(4)
	Supported Y (Yes) Not Supported N (No)	Y = 7 N = 5 Partly = 1	Y = 8 N = 4 Unknown=1	Y = 8 N = 4 Unknown=1

Notes: (1) Some benefits were common across the whole corporate MNE. (2) There was some discretion for final individual pay, but job evaluation existed. (3) Taken to mean decentralisation within Buildo Australia, and not within the whole MNE. (4) Centralised job evaluation and bonus system within the steel sector of the MNE system. The PIPs plant-wide incentives (arguably a form of gain-sharing) for industrial and clerical employees follow the recommendations for a moderately low Power Distance, but profit-sharing was only available to management, who, in turn, had superior employee benefits. The emphasis on individual performance for the clerical and managerial staff was appropriate for the high Individualism and the moderately weak Uncertainty Avoidance of Australia (Hofstede, 1980). Buildo Australia had few additional family benefits (appropriate for the moderately high Masculinity). On the other hand, the emphasis on performance did support the recommendations for the moderately high Uncertainty Avoidance dimension in Australia, as found by Hofstede (1980).

With industrial relations environment, the Buildo Australia manager argued that the AIRC NWCs had previously had a major impact on wage rises. The company only paid award wages. The industrial tribunals therefore set their pay scales. However, the Industrial Relations Acts of 1988 and 1994 had given Buildo the opportunity to supplement the Metal Award with a formal enterprise agreement introducing the PIPS. Unions were seen as a fairly strong constraint. For example, the HR Manager said that:

> If we decided to pay employees on a monthly basis rather than fortnightly, this might be difficult. It is always the attitude that something had to be traded off to justify this, even if the employees agreed.

Being in the heart of the metal industry and recognising unions, Buildo had no option but to use the Metal Award as the basis of its compensation for industrial staff. The view of the executive was that the company was trying to 'stop telling people how to think'. Buildo was ceasing to be paternalistic and was now allowing people to choose. While employment with Buildo was previously perceived as 'cradle to grave … , there was now more flexibility in the system'. On the benefits side, items like child-care were still a difficult issue for the company. Buildo did not want to take the initiative and be first in the industry for new benefits such as child-care.

For a fuller explanation of Buildo Australia compensation design, the pressures of the reinforcing products industry should be included. The market was a domestic one linked to the business cycles of the construction industry. The technology was not fast-changing, but material costs were high, and competition was strong. Products could be tailor-made for a particular construction. The implications of the reinforcing industry for the internal environment were that Buildo Australia's size warranted some formality in pay design. There was no use of overseas expatriate staff in the plant and the affiliate was self-contained in terms of shopfloor compensation systems. There were more pay linkages for senior management to compensation in the steel division of the corporate MNE Buildo to facilitate movement between functions. The emphasis was on the flexibility of labour and the encouraging of shop-floor skills, as well as gaining competitive advantage by a concentration on costs and service through the Performance Improvement Payment System. The changes in compensation were part of a program of HR approaches and cultural change. The nature of the business determined the skill profile and the type of awards used in compensation design. It also determined which unions had formal coverage rights for representation in Buildo Australia.

Summing up, the compensation systems for Buildo Australia could be seen as a combination of a history of following awards, a new desire to design systems to suit local circumstances, and an acceptance of the control systems of the steel sector head office at the top end. The company was fortunate that because of its specialist nature, it only had one union to deal with, and so had historically only used the Metal Industry Award as the basis for industrial pay. The change in legislation and AIRC decisions had opened up the opportunity for an enterprise agreement to supplement this.

Buildo Singapore

Company Background of Buildo Singapore

Buildo Singapore reported to the International Division of the corporate Buildo MNE through the Regional Manager for South-East Asia, a relationship which had operated since February 1992. Prior to this, it reported to one of Buildo's domestic divisions. Buildo Singapore was originally the result of an amalgamation of two British companies in 1952. On 1 July 1991, 50 per cent of the shares were taken up by Buildo Australia. At the time of this study, Buildo Singapore was thus half owned by a UK group and half by Buildo Australia. Each had four directors on the independent board. There was a shareholders' representative of the British group on the board as well, and one shareholders' representative from Buildo. The Managing Director

(MD) was an Australian expatriate from Buildo and was an International Division employee. The previous MD was on loan from another Australian company and was paid on local, rather than expatriate, rates. The management responsibility for the company rested with the British group, but the British realised that Asia was growing quickly, and placed a representative in Singapore. The Buildo International Division was regionalised. Buildo Singapore was 'looked after' by the South East Asia regional office, but the MD reported to the UK group. According to the manager interviewed, 'this arrangement is fairly complicated' in that the Singaporean MD also reported to a Buildo person in Singapore. However, the fact that the representative was based in Singapore rather than in Australia was perceived to be useful.

The Buildo Singapore link with the corporate Buildo was somewhat unusual for the MNE, as it usually preferred to manage its operations with 100 per cent ownership. This had not had a major impact on the business as most of its raw materials did not come from Australia. However, the entry of the Buildo MNE into the company had helped expansion into Asia, because of Buildo's greater presence in the region. Buildo Singapore had a wholly owned subsidiary in Hong Kong. The 39 Hong Kong staff reported to the Singaporean Managing Director, as did another subsidiary, incorporated in June 1993 in Vietnam, which commenced production in March 1994.

Two other companies competed with Buildo in Singapore, but it held 50 per cent of the market. The main market was Singapore, with a small percentage exported. The potential market was increasing, although it varied according to the state of the building and construction industry. The biggest change in the affiliate between 1992 and 1995 was the greater emphasis on planning. The company devised a business plan which was dynamic. From this, it set goals and then reviewed the performance of departments. In the past, strategic business plans were 'one-off' affairs that were ignored once written. The compensation systems were not yet part of the business plans, and there was no formal individual performance appraisal system. Departmental heads did their own assessment of their employees.

Organisation of Buildo Singapore

In 1992, Buildo Singapore had 229 staff, with 171 in the factory and 58 in administration. Its organisation structure is shown in Figure 9.5.

Figure 9.5
Organisational Structure for Buildo Singapore as at 1992

Board of 4 Buildo Directors (incl. M.D.)
and 4 UK Directors and 2 shareholders' representatives

Managing Director

- General Manager Hong Kong
- Works Manager (Dept Staff 15 Works Staff 171)
  - Industrial Engineering
  - Planning
  - Production
- Financial Controller (Dept Staff 12)
  - Purchasing
  - Computer
  - Personnel
  - Accounts
- Marketing Manager (Staff 25)
  - Sales
  - Sales/Production Engineering
  - Technical Scheduling

The Production Division of the Works Manager's Department was the largest, and included day and night foremen. In terms of skill levels, the technical and sales divisions employed engineering and draftspersons. Their job was to take drawings from the construction companies and to determine the wire mesh sizes required. The Works Manager was a mechanical engineer; the Marketing Manager (later Director) and Financial Controller were also very experienced and qualified Singaporeans. The shop floor staff were unskilled or semi-skilled and were trained in-house. Males consisted of about 70 per cent of the staff at Buildo Singapore. The office staff were mainly female. There were very few staff younger than 20 years of age and about 5 per cent older than 50.

By 1995, Buildo Singapore had grown considerably. The Works Manager's Department by then had 231 operatives and 19 office staff. The Marketing Manager had become a director with an increased establishment of 29 staff. New expatriate Development and Product Managers, and a new HR Executive had joined the managerial team.

Production Technology of Buildo Singapore

The main product of Buildo Singapore was welded wire mesh sheets to reinforce concrete on construction sites with sizes manufactured to order. This was 95 per cent of the business. A smaller secondary product was welded galvanised mesh for industrial and commercial use. In 1992, the technology of the company was changing with the purchase of special machinery with computerised programs to produce tailor made sizes. The production process started with mild steel wire rod in coils (purchased from a Singaporean company), drawing the wire down to size and then hardening it. The mesh was manufactured and then delivered to construction sites by a contracting delivery firm. Buildo was having to adjust to Just-in-Time methods in the construction industry. The computerised machines did not change the skills needed by the operators, as they mainly affected the systems.

Mission and Objectives of Buildo Singapore

The objectives of Buildo Singapore were to increase sales and remain the largest supplier in Asia. This was not easy, as there were ten suppliers of mesh in Malaysia which could import product into Singapore without tariffs. Exporting into Malaysia, however, incurred a 40 per cent tariff. Apart from sales, service and innovation were other key goals. Buildo was therefore attempting to improve the 'tailor made' process of production, improve its service and its production planning to provide a bigger variety of heavy meshes on time.

HRM/IR Organisation of Buildo Singapore

Up to August 1995, the company was still not unionised, and the personnel policies resulted in high retention of staff. The employees showed no motivation to join a union. Main conditions of service were included in an employees' handbook. The MD set the rules for general personnel policy. Until 1992, the HRM function was under the control of the Financial Controller and a personnel clerk did the administration. Between them, they handled recruitment, selection, staffing, training and pay. The previous MD stated that the corporate Buildo MNE had no influence on HRM systems in Singapore, but that this could change if he was replaced by a Buildo person. He was currently on loan to Buildo from another Australian company and returned to Australia in 1992. When the personnel clerk resigned, the new MD upgraded the position to 'HR Executive' and employed a person who had had training in HRM. She had also undertaken formal courses with Buildo MNE in Australia in staff selection.

All new operator employees had to work for a month on probation and were then confirmed. Staff employees had three months' probation. On confirmation, employees were entitled to sick pay, life insurance, and medical insurance. Buildo referred to a staff (office) and factory (workers) distinction. There were many factory workers with more than 30 years of service. The additional employees were recruited from Malaysia, because no more Singaporeans were available. For these foreign workers, the company had to pay a levy of $S300 per month to the government plus a normal monthly salary. Buildo had to pay S$450 per month per foreign worker if foreigners consisted of more than 40 per cent of the total workforce. The CPF levy was not payable to or by these employees by the company if they were short-term. Although foreign workers were on the pay scales, they did not progress up the scales as far as the local staff because they were mainly temporary employees, and the pay structure was mainly built on length of service. In 1992, the retirement age was 55 years, but employees were allowed to continue unofficially until age 60. By 1995, this had been officially increased to 60 years.

Industrial Staff Compensation of Buildo Singapore

In Buildo Singapore, four different compensation systems were operating: the expatriate, the management, the sales/technical/clerical, and the industrial. The industrial staff were paid on one of four grades (R4 being the lowest through to R1, the highest). R4 covered the machine assistants, whose main role was to carry materials. R3 was for fork lift drivers, R2, machine operators and R1, leading hands and fabrication machine operators. Daily rates were increased after one month's service and then for every subsequent year of service. The pay matrix showed that after 20 years, this could result in about 50 per cent extra pay per day.

Base pay was paid fortnightly as was a productivity bonus, calculated for each department hourly, using standards and standard times for production. The productivity bonus worked out at approximately 50 per cent of base pay. For example, in 1992, a new factory employee (R4) would start at S$20.03 per day, but make an additional S$10 bonus per day. More senior staff could gain an additional 55 per cent of base pay. 'The bonus is definitely an incentive. They like bonuses and understand how they work', said the MD. Employees would cover each other during breaks to ensure the production levels did not drop.

In the factory, the company had certain standards for certain types of mesh. For example, Buildo paid a much higher percentage of total pay for high levels of work.

To illustrate, in 1992, the basic rate might be S$21.03 per day for a 65 per cent performance. This would be the lowest rate for a machine assistant under the grade for RG1 after three months' service. For a 65 per cent performance per hour (about average for the factory), the person would earn another $1.64 per hour incentive making a total of S$13.12 incentive per day plus travelling allowance, plus shift allowance.

Factory staff also received the AWS (13th month). In some companies, this was paid at Chinese New Year. In Buildo, it was paid at Christmas. The fourth element of the pay package was a corporate bonus based on operating profit to all staff with more than one year's service. This usually consisted of about 2 per cent of profit before tax for the factory employees and 2½ per cent for the office. The difference was because office staff were not paid overtime. The amounts were divided among employees. In 1991 and 1992, factory employees were paid 4 months' bonus. The lead operators assessed all their subordinates, and if a person was contributing very well and was making a number of suggestions, they might receive an additional special bonus.

The normal working hours for the Buildo factory employees were an 8-hour day for 44 hours per week, but they could work a full day on Saturday every fortnight. Overtime was paid at time-and-a-half, Sundays double time and public holidays, triple time. Employees could work more than 73 hours per week with agreement of the government. The company was obliged to work an average of 70 hours per week because of the shortage of labour. Staff worked 2 x 12 hour shifts per day, with 8 hour shifts on Saturday and Sundays. The view of the company was that employees liked overtime 'and would probably leave or get a second job' if overtime was cut. If the company experienced peak demand, 12 hour shifts might be worked on Sundays for 3–4 weeks. In 1991, the company was working a 7 day week for the whole year.

The reason for the Buildo pay system for industrial staff was that in the early 1980s, pay increases were very high. Singapore experienced a recession in 1985, so no wage increases were paid in 1986 and 1987. Buildo adhered to the NWC guidelines and did its own survey of its catchment area in Singapore. If it found its wages were below market rate, it would increase the bonus element. The Buildo policy would be to increase base rate by 5–6 per cent and put the rest into the profit-share element. The company paid its industrial staff a travelling allowance per day, the amount depending on zones in which employees lived. Shift allowances ($8 per shift) were paid, and holidays varied according to length of service. The commencing figure was 11 days rising to 15 days, with some long-serving employees receiving 20 days.

As at 1995, the company was still using four grades, with rates calculated on a daily basis. The basis for compensation was still a base rate of which about 60 per cent was for salary and 40 per cent for production bonus. The system was reviewed regularly, especially if new technology was involved. The review of the production bonus was carried out by industrial engineers and a committee of employees to ensure fairness. The pay curve for the production bonus was very progressive and the employees could make a lot of money if they worked hard to exceed the standards. The AWS and the profit-share elements still applied. Buildo only paid one month of AWS (13th month), but the profit-share could be considerable. In 1993, 5½ months salary was given as a bonus on average. The 8-hour day and 44-hour week also still operated. Overtime was still 1½ times pay, with Sundays double time, but work on public holidays had been reduced to double time pay from triple. The company used 2 x 12 hour shifts when demand was high, and overtime was organised on Saturdays and Sundays if necessary.

The main thrust of the system was skill level, performance and market level. A movement from one grade to the next depended on service, training and competence. Commitment to the company was encouraged through possible deductions from the profit-share bonus for absence during the year.

Clerical and Administrative Compensation of Buildo Singapore

The clerical and administrative staff were paid on an individually negotiated salary basis. There was no formal structure or job evaluation, but the basis of pay was initially the job. The going market rate was therefore a major influence on pay. Compensation was reviewed annually based on length of service, increased responsibility and competence. The 40 or so clerical/administration people were paid at different rates. They worked 8.15 am – 5 pm for 5 days per week (no Saturdays), with a pay system of a base rate, AWS (13th month) and end-of-year bonus based on operating profit. In 1992, this was 4½ months' pay. No productivity bonus was paid.

Overtime compensation was payable up to a pre-determined level of salary. However, the company could take into account the amount of overtime worked for no pay when assessing the end-of-year bonus for an individual. Holidays started at 14 days rising to 20 with length of service. Uniforms were provided for female office staff. A bus was provided to and from the local Mass Rapid Transit Station.

The 'going rate' and length of service were the main considerations in salary decisions of more senior administrative employees. As a guide, in 1992, a qualified accountant would earn around S$3,000 per month, a credit controller (chasing payment for invoices) around S$2,550 per month and a secretary to a manager about S$2,260 per month.

Sales and Technical Compensation of Buildo Singapore

Sales staff were judged to have more responsibility than clerical staff, were therefore paid more and had salaries which rose faster. After a few years' experience, they were expected to be able to prepare a construction site program. Both sales and technical staff were paid on individually negotiated salaries at the going market rate based on the job to be done. There was no formal structure of job evaluation. Both types of staff got a base rate plus AWS and a bonus based on operating profit expressed in 'x' months pay. This might be adjusted by the amount of sick leave taken, but for staff was usually around 5–6 per cent of their pay. Overtime was worked and paid for when necessary. Consultants' surveys were used to ensure pay levels were in line with the market.

There was no change in the basis of pay between 1992 and 1995 for Buildo employees. The bonuses based on operating profit were in the order of 5–6 per cent of profit in 1994 and 1995. The MD considered that this kept the salaries in line with market averages. The percentage bonus was translated into months of pay. Buildo budgeted for the expected profit and, if this was exceeded, the bonus curve went up very steeply. As the employees understood this, the MD believed this was very motivating.

Managerial Compensation of Buildo Singapore

The management team was a combination of expatriates and local managers. The expatriates' (including the MD's) and three executives' salaries (Works Manager, Financial Controller and Marketing Director) were approved by the Buildo Singapore board. The other local managers' packages were negotiated individually with the Buildo Singapore MD. The local managers were paid on an individually negotiated salary at the market rate for the job to be done. Buildo Singapore at one stage used a major personnel consultancy to develop a structure and to do a survey of 35 companies, but it found this to be unsatisfactory. The company thus did its own survey and also used the Singapore National Employers' Federation surveys of executive salaries as a guide. At the time of the first interviews, to prevent turnover, the company aimed to pay above the market average (percentile not disclosed by author by request) and provide a base salary (no overtime), the AWS and a bonus related to profit which could be of up to 6 months maximum. Cars were also purchased for senior managers. In 1992, the Works Manager, Marketing Manager and Financial Controller were on salaries which well exceeded S$100,000 per year. Salaries were kept confidential, but employees no doubt discussed them with each other, according to the interviewed manager.

By 1995, the Managing Director said that surveys were still used to assist in determining the compensation for the four executives in the company (MD, Works Manager, Financial Controller and Marketing Director). The basis of pay was still the a basic sum plus the AWS and car, but the calculation of the bonus had changed since 1992. Previously the bonus had been geared to profit, but the link was amended to individual key performance indicators (KPIs) which were set by the Managing Director. Each executive had different indicators. For example, the Works Manager had a KPI which covered lost time injuries and another which covered the delivery of the product. There was a matrix which attributed the company profit to the KPIs for each manager. The norm for bonus in 1995 was about 3 months' salary. The local executives were reviewed in January of each year. The MD's salary was reviewed by corporate Buildo MNE on 1 December each year.

Employee Benefits of Buildo Singapore

Many employee benefits were common across the Buildo Singapore workforce and a number were unique to staff employees and board members. The common benefits were:

- Annual leave
- Compassionate leave
- Death benefit
- Hospital cover
- Life insurance
- Maternity leave
- Medical benefit
- Sick leave
- Specialist surgical fees.

Uniforms were provided to the operators, clerical, and technical staffs. Shift allowances and meal allowances were given to industrial employees only. Study leave, long service awards and funeral leave benefits were available to all non-board employees. Cars were provided to some managerial and executive board members, together with entertainment allowances, while lower-level staff could claim reimbursement for car use for business. There was no change in the benefits policy up to August 1995. The full profile is shown in Table 9.6.

Relationship of Buildo Singapore to Corporate Head Office

In 1992, the then Managing Director stated that the role of the corporate Buildo MNE in running the Singapore affiliate was 'minute'. He explained:

> There are one or two board meetings per year, and [corporate] Buildo likes to know what is going on through monthly reports. If [Buildo] want any changes, they would go through the British directors.

However, the Singaporean Financial Controller had close links with the corporate Buildo MNE Finance Office. A corporate Buildo MNE manager agreed that the Singapore subsidiary was managed autonomously, but that there were some Buildo MNE policies that the corporate CEO in Australia liked implemented, such as high standards of occupational health and safety and concern for the environment. The former Managing Director, even though he was an Australian on loan from another Australian company, was deemed a locally hired person, so his salary was determined by the Buildo Singapore board, and he was paid as a local and not as an expatriate. His replacement was an Australian expatriate from the International Division of Buildo MNE whose package was fixed by the corporate head office of Buildo MNE in Australia and its South-East Asian regional office in conjunction with the Buildo

Table 9.6

Employee Benefits Profile for Buildo Singapore as at 1995

	Industrial/ Blue Collar Unskilled	Skilled	Clerical/ Admin	Sales/ Technical	Professional/ Management	Board
Acting allowance	✓	✓				
Annual leave	✓	✓	✓	✓	✓	✓
Attendance allowance						
Benefit for overseas assignments						
Business entertainment expenses				✓	✓	✓
Cellular phones				✓		✓
Co-operative shares						
Compassionate leave	✓	✓	✓	✓	✓	✓
Death benefit	✓	✓	✓	✓	✓	✓
Dental treatment						
Early retirement schemes						
External/social recreational club membership						✓
Festive loan/advance	✓	✓	✓	✓	✓	
Fixed monthly transport allowance				✓		
Free medical treatment/medicine	✓	✓	✓	✓	✓	✓
Funeral leave benefit	✓	✓	✓	✓	✓	
Hospital ward benefit	✓	✓	✓	✓	✓	✓
Housing loan						
Housing renovation loan						
Insurance	✓	✓	✓	✓	✓	✓
Laundry benefit						
Long service award	✓	✓	✓	✓	✓	
Long-term illness						
Machine allowance						
Marriage leave						
Maternity leave	✓	✓	✓	✓	✓	✓
Meal allowance	✓	✓				
Medically board-out benefit						
Other loans						
Paternity leave						
Provision of car					✓	✓
Reimbursement for use of own car on company business				✓	✓	
Retirement benefit (>CPF) [Singapore]						
Retrenchment benefit						
Service benefit	✓	✓	✓	✓	✓	
Shift allowance	✓	✓				
Sick leave	✓	✓	✓	✓	✓	✓
Specialist surgical fee	✓	✓	✓	✓	✓	✓
Study leave/benefit	✓	✓	✓	✓	✓	
Transport benefit/allowance/ reimbursement	✓	✓	✓	✓		
Uniform	✓	✓	✓	✓		
Union day leave						
Union education leave						
Unpaid leave						
Voluntary resignation benefit						

Singapore Board. A recommendation was made to the Regional Manager who considered the consistency of packages for his staff and the level of the market. In the Australian corporate Buildo head office, there was a simple grade system to record the numbers of staff operating at high levels of the company overseas. Stated the MD:

> There is no involvement by [corporate Buildo MNE] in the running of [Buildo Singapore] except that [Buildo MNE] will look at the executive pay to ensure that that it fits into their systems.

The local Buildo Singapore board, however, gave the final approval for the executive pay. The affiliate MD spoke of his preference for running the company in an autonomous way, but had to tolerate 'the seagulls' visit' from Australia and the UK twice a year.

The Profile for Buildo Singapore Compensation

Three occupational groups were chosen for comparison between Buildo Australia and Buildo Singapore. The Gomez-Mejia and Balkin (1992) Algorithmic and Experiential profiles for the industrial, clerical (staff) and managerial compensation in Buildo Singapore were shown in Tables 9.2 to 9.4. The **operatives** in Buildo Singapore (Table 9.2) were paid for the skill and could progress through the grades according to the machines they could operate. The total performance of the operative team was rewarded with productivity bonuses, but there was also strong emphasis on length of service which was assumed to be linked with skill. In general, therefore, while there were some important Algorithmic elements in the compensation system, the operatives' wage scheme was mainly Experiential in focus.

The **staff** compensation (Table 9.3) was mainly job-based with increases being mainly based on tenure. The level of performance measurement was individual and aggregate (through the distribution of operating profits), and the time orientation was short-term. By contrast with the operatives, the staff compensation tended to have more Algorithmic features and a more informal approach.

The **top management** compensation (Table 9.4) was initially job based with KPIs demonstrating the need to contribute. This moved the focus to individual performance against pre-set standards. The risk element in the pay could be high and the strategic focus was on the subsidiary only. The compensation pattern for the top management was more a balance between Algorithmic and Experiential aspects with the Algorithmic features slightly more dominant.

Buildo Singapore Compensation and the External Environment

Moving now to the external environment of Buildo Singapore, the perception of the MD in 1992 to the effect of legislation on the design of compensation systems was similar to that of the Singaporean interviewees in all the cases so far discussed in that legal requirements had to be observed. Employment legislation was quoted as affecting the CPF contributions, holidays, public holidays, sick leave, workers' compensation and other areas covered by the provisions of the Employment Act. He continued:

> A company has to advise the government about the earnings of staff, and the civil service has the power to check the pay records of employees and the rates and numbers of foreign employees employed.

The growth of the economy and the tightness of the labour market were perceived as big problems because of their inflationary effects.

> We can only put Malaysian workers in the factories—not Thais. Office workers are a problem too because their starting salaries are so inflated.

The nature of the labour market had more significance for levels of pay than for structure although the NWC guidelines were taken into account in designing pay systems and fixing levels because 'we have to be careful as a foreign owned company', said the MD. Nevertheless, the labour market was 'the main driving force in pay policy along with the NWC'.

According to the Managing Director in 1995, the compensation philosophy was to 'pay better than average to retain staff'. Buildo Singapore used a personnel consultant to assess staff pay in relation to the labour market, and to benchmark and evaluate jobs from time to time. If a job were found to be out line with the labour market, the rates would be increased to prevent labour turnover. All salaries and wages (except for those of the four executives) were reviewed on 1 July of each year.

On another theme, the MD considered the NWC recommendations 'strange' in that Singapore was conscious about its costs in relation to the other NICs. A meeting of the Singapore National Employers' Federation, National Trade Union Council and government representatives had tried to sell the idea that because Consumer Price

Index had gone up by 2.5 per cent, and productivity by 2.8 per cent, then pay rises should be restricted to 5 per cent. However, civil service employees were awarded 5.5 per cent by the government, so Buildo increased its rates by the same percentage.

On Singaporean culture, he stated:

> We don't do anything differently in Singapore, but the workers on the shop floor will do dirtier work than in Australia. We have had only one back injury in 5 years and no workers' compensation injury claims. Women lift mesh here, which they wouldn't do in Australia. Attitude to attending work is greater in Singapore. People are trying to better themselves. There is a bigger range of pay from shop floor to management, but if you don't work, you don't get paid.

The replacement MD in 1995 also reflected on the attitude of employees to money and motivation. He said 'everything is the dollar here; the staff like incentives'. He recounted the anecdote of the long-service award being a choice of a watch or a gold bar. Employees usually preferred gold bars but did not want them inscribed with their names as they could be resold immediately afterwards. He refused to comply with their requests.

Table 9.7 shows how closely the Hodgetts and Luthans (1993b) recommendations for compensation for the cultural dimensions for Singapore, as found by Hofstede (1980), were supported in the compensation schemes of Buildo Singapore. With the **industrial** staff compensation, there is a reasonably close conformity with the Hodgetts and Luthans recommendations. The structure was very hierarchical, with a wide dispersion of rates, and was thus suitable for a high Power Distance culture. The bonuses were departmental or plant-wide and were apt for the low Individualism culture of Singapore (Hofstede, 1980). Length of service was suitably dominant, although the emphasis on performance was very strong as well — appropriate for weak Uncertainty Avoidance. The following of the **clerical** compensation of the recommendations was not quite so strong, as there was no clear hierarchical pay structure recommended for a high Power Distance society With the focus more on individual rather than group incentives for the **managerial** employees, the pay recommendations for the Singaporean culture were only partly observed. It could be argued that the need to make the managers individually accountable for contribution to profits overrode the need to conform entirely to cultural fit.

Table 9.7

The Hodgetts and Luthans (H&L) Recommendations for Compensation in Singapore as Reflected by Buildo Singapore

SINGAPORE				
Hofstede Dimension Index	**H&L Recommended Compensation**	**Industrial Staff Compensation**	**Clerical & Admin Staff Compensation**	**Managerial Compensation**
1. High Power Distances	• Hierarchical compensation strategy	Yes	Not for this category	No
	• Pay and benefits tied to place in structure	Yes for company	Yes for company	Yes
	• Large salary gaps between lowest and highest paid	Yes	Unknown for clerical pay	Unknown for managers, but Yes for company
2. Low Individualism	• Group compensation plans	Yes	Yes	No
	• Seniority-based pay	Yes	Yes	No
3. Moderately low Masculinity	• Many family benefit	No	No	No
	• Quality of worklife emphasis	No	No	No
	• No gender pay differences	Yes	Yes	Yes
4. Weak Uncertainty Avoidance	• Emphasis on performance	Yes	Yes	Yes
	• Sharing of risks associated with MNE's success or failure	Yes	Yes	Yes
	• Competitive salaries to avoid poaching of staff	Yes	Yes	Yes
	• Decentralised pay policies	No(1)	No(1)	No(1)
	Supported Y (Yes) Not Supported N (No)	Y = 9 N = 3	Y = 7 N = 4 Unknown = 1	Y = 6 N = 6 Unknown = 1

Note: (1) Taken to meand decentralisation within Buildo Singapore rather than within the whole MNE

Arguably some other external and internal environmental elements also affected the design of pay in Buildo Singapore. The subsidiary operated within the South East Asian region in highly competitive markets, some of which had tariff barriers. Product demand depended on the state of the construction industry. The technology of both Buildo Australia and Buildo Singapore, which was not fast-changing, was similar as both affiliates were batch producers. Paying for skill and on the number of machines that could be operated was a major factor in the pay design for the operators, and with about 170 staff in the factory, some formalisation of compensation systems incorporating performance and length of service was necessary. Bonuses for meeting production targets were in force for both operators and some managers.

Differences and Similarities in Buildo Australia and Buildo Singapore Compensation

Table 9.8 summarises the main similarities and differences in the compensation for Buildo Australia and Buildo Singapore.

Table 9.8
Comparison of Compensation Systems in Buildo Australia and Buildo Singapore

Buildo Australia	**Buildo Singapore**
General Organisational Factors	
Medium-sized	Medium-sized
Batch manufacturing	Batch manufacturing
Relatively simple machine technology	Relatively simple machine technology
No plant HR specialist	Plant HR specialist
Unionised shop-floor staff	Non-union plant
General Compensation Features	
Hay grades for senior staff	Individually negotiated senior salaries
Six grade structure for staff positions	No structure for staff positions
Enterprise agreement for shop-floor	Management determined structure
Industrial Compensation	
Experiential (5A*; 10E*; 1 A/E;2 unknown; 1 not applicable)	Experiential (6A*;10E*;1A/E; 1 unknown; 1 not applicable)
Skill-based pay supplementing award	Progression based on skill
Plant-wide performance bonus	Department, AWS, and corporate bonus
AIRC ratified enterprise agreement	No collective agreement
No recognition for length of service	Annual increments for service
3 award classifications for minimum salaries used	4 grade structure and ranges
H&L** recommendations? 7 yes;5 no; 1 partly	H&L** recommendations? 9 yes;3 no

Clerical Compensation

Algorithmic (11A*; 4E*; 2 A/E; 1 unknown; 1 not applicable)	Marginally Algorithmic (9A*;7 E*; 1 unknown;2 not applicable)
Job-based using modified job evaluation system	Job-based in relation to market rates
Individual performance and overall pay review	Annual review based mainly on service
6 grade structure with salary ranges	No structure
Share of plant-wide bonus based on shopfloor KPIs****	End of year bonus based on company profit
H&L** recommendations? 8 yes;4 no; 1 unknown.	H&L** recommendations? 7 yes; 4 no; 1 unknown

Managerial Compensation***

Algorithmic (10 A*; 6 E*; 2A/E; 1 unknown)	Marginally Algorithmic (10 A*; 8 E*; 1 unknown)
Job-based with overall salary review	Mainly job-based against market rates
Hay job evaluated structure	Individual negotiation and no structure
Individual performance appraisal against objectives	Individual performance appraisal against individual KPIs
Share of plant-wide bonus based on KPIs for shop-floor	Share of company profit based on individual performance
H&L**recommendations? 8 yes; 3 no; 1 unknown.	H&L**recommendations? 6 yes; 6 no; 1 unknown.

Notes:* A is Algorithmic. E is Experiential. A/E is Algorithmic/Experiential. As used in the Gomez-Mejia and Balkin (1992:61) Summary Profile of Experiential and Algorithmic Compensation Patterns. ** H&L is Hodgetts and Luthans (1993b) ** H&L is Hodgetts and Luthans (1993b) *** Excludes expatriate staff ****Key Performance Indicators

Included in Table 9.8 are the total number of Algorithmic and Experiential features for each of the compensation systems in Buildo Australia and Singapore extracted from Tables 9.2, 9.3 and 9.4. As in the previous two chapters, to ensure a more overall valid comparison of the Algorithmic (A) and Experiential (E) patterns in the affiliates, the comparison can be restricted to only those *common* compensation features for which data were available and applicable in both subsidiaries. The results are shown in Table 9.9.

Table 9.9
Total of Algorithmic (A) and Experiential (E) Compensation Features for Buildo Australia and Buildo Singapore as at 1995 – Selected Common Features Only

Number of Algorithmic(A)/Experiential(E) Features						
	Buildo Australia			**Buildo Singapore**		
Industrial	5 A	10 E	1 A/E	5 A	10 E	1 A/E
Clerical	11 A	3 E	2 A/E	9 A	7 E	0 A/E
Managerial	10 A	6 E	2 A/E	10 A	8 E	0 A/E

Restricting the Algorithmic and Experiential classifications only to those selected common features for which data were obtainable and applicable for both affiliates,

Table 9.9 indicates predominantly Algorithmic compensation patterns for the clerical and managerial pay systems in Buildo Australia, and marginally Algorithmic profiles for the same staff in Buildo Singapore. The compensation patterns for industrial employees in Australia and Singapore were both Experiential. The overall patterns for all three compensation systems for both affiliates given in Table 9.8 are therefore similar to those in Table 9.9 and will be re-examined in a later chapter. As noted earlier, this is not say each pair of compensation elements taken individually was the same in both subsidiaries. The differences and similarities between the employer benefits of Buildo Australia and Buildo Singapore are shown in Table 9.10.

Table 9.10
Common and Unique Benefits in Buildo Australia and Buildo Singapore

Common Benefits for all Occupations in Both Subsidiaries Annual leave Compassionate leave Death benefit Long service award Maternity leave Sick leave Study leave/benefit CPF or superannuation	**Additional Common Benefits for Industrial Employees Only in Both Subsidiaries** Meal allowance Shift allowance Uniforms **Additional Common Benefits for Clerical/Admin, Sales/Tech and Professional/Managerial* Only in Both Subsidiaries** Free medical treatment /medicine Company car (for sales and managerial only)
Benefits Unique to Buildo Singapore Acting allowance Festive loan/advance (all staff) Free medical treatment/medicine (industrial) Funeral leave benefit (all staff) Hospital ward benefit (all staff) Life insurance (all staff) Service benefit (all staff) Specialist surgical fee (industrial) Transport allowance (all staff) Uniform (clerical/admin., sales/tech)	**Additional Common Benefits for Management* Only in Both Subsidiaries** Business entertainment expenses **Benefits Unique to Buildo Australia** Dental treatment (clerical/admin., sales/tech.., Professional/managerial*) Long-term illness (industrial) Paternity leave (all staff) Retrenchment benefit (all staff) Union education leave (industrial) Unpaid leave (clerical/admin., sales/tech., and Professional /managerial*)

Notes:* Excludes expatriates

In relation to the research questions of this study, some differences in compensation design between the two affiliates can arguably be attributed to differences in the respective external environments. For the operating staff, the Employment Act specified minima for Buildo Singapore, and the Metal Industry Award did the same for Buildo Australia. The Singaporean affiliate had to pay the Annual Wage Supplement (13th month), but could design any system it pleased. The Australian company was constrained by the Metal Industry Award for some conditions, but once the industrial relations climate and legislation changed and encouraged enterprise agreements, Buildo took advantage of this.

The state of the economy and the labour market had more effect on levels of pay than on the operators' compensation structure. This was particularly the case in the tight labour market for unskilled and semi-skilled staff in Singapore at that time. In boom situations in Australia, Buildo Australia had the option of paying more than award wages if necessary to attract staff. Decisions of the NWC (in Singapore) and the AIRC NWC (in Australia)—decisions that are largely based on economic data—affected both affiliates. The AIRC still determined the award pay and conditions in the Metal Industry Award which Buildo Australia implemented. The Australian Government's Accord with the unions introduced more certainty of future pay rises for Buildo Australia. The NWC in Singapore no longer recommended quantum amounts, so the company used the civil service as its guide. However, it followed the recommendations of the NWC in making its pay system more flexible since the mid-1980s.

In relation to national culture and the operators' compensation, neither subsidiary opted for individual incentive schemes. In Singapore, one could argue that this fitted in more easily with the cultural avoidance of 'loss of face'. In Australia, this may have been more to do with Australian union movement's reluctance to support individual incentive schemes.

We have seen that an argument can be put to link the operators' compensation to the Hofstede (1980) dimensions for national culture for Australia and Singapore. The wide range of pay in Buildo Singapore suited the high Power Distance in Singapore, as suggested by Hofstede (1980). The flatter compensation structure in Australia, based around the pay of the tradesperson, and the gain-sharing PIPS conformed with the Hodgetts and Luthans (1993b) recommendations for Australia's moderately lower Power Distance, but not with the high Individualism of Australian culture (Hofstede, 1980). The long length of service scales met the needs of low Individualism in

Singapore, and the new reliance on plant-wide performance in Buildo Australia met the suggestions for a moderately weak Uncertainty Avoidance culture. Neither subsidiary had family-friendly employee benefits, which was more in tune with the moderately high Masculinity score for Australia than the moderately low score for Singapore. As posited before, it was doubtful whether the differences in the pay systems could be attributed directly to culture alone, as it was obvious that unions, custom and practice and legislation were all significant influences.

One key difference between the two plants was that because the Australian site was unionised, the affiliate's compensation design becomes subject to union and tribunal ratification. Its enterprise incentive agreement (PIPS) was its own design negotiated with the unions. Buildo Singapore could stipulate its own structures to employees.

Turning to staff pay systems, as both subsidiaries were non-unionised, they had more choice in compensation design. The legal environment was influential again through the minimum conditions of service set by the Employment Act in Singapore, the relevant awards in Australia, and the superannuation and CPF laws. The labour market was important to both subsidiaries in determining level of pay, but did not affect the structure. Both affiliates noted the conclusions of their respective NWC, and the composition of the compensation in Singapore followed the requests for more flexibility in the system. Buildo Australia's salary ranges were compared to market rates. In Buildo Singapore, clerical and administrative employees were rewarded more on length of service as well as market rates.

Culturally, the weak Uncertainty Avoidance in Singapore found by Hofstede (1980) could arguably be reflected in the performance emphasis for staff employees; and the low Individualism in the seniority and plant-wide bonus for the staff. In Australia, pay was linked to individual performance, which conformed to high Individualism and moderately weak Uncertainty Avoidance. The Hodgetts and Luthans (1993b) propositions for compensation design were partially supported for all three occupational levels studied in Buildo Australia, and for the industrial and clerical and administrative employees in Buildo Singapore. An equal number of pay features both conformed and failed to conform with the Hodgetts and Luthans (1993b) propositions for Singapore's culture.

The main difference in the managerial systems was that the staff in Buildo Australia were integrated into the national Hay job evaluation framework with the basis for pay being job size and performance. Pay-for-performance for managers was common in both affiliates, but there was no job evaluation in Singapore, and the market rates dominated. The external environment's other influence was the legislation requiring deductions (e.g. the CPF in Singapore, and the FBT and superannuation in the Australian affiliate). The labour market set the standard for general pay levels in both countries.

Finally, we noted that many employee benefits for the operators in Buildo Australia were contained in the Metal Industry Award. The plant had to observe these as it was unionised, but had now moved away from the award as the main basis for payment. For all other staff, the company policy decided the benefits. In Singapore, apart from the requirements of the Employment Act, Buildo Singapore could determine its own benefits policy. For all staff, the common benefits in both affiliates were annual leave, compassionate leave, death benefit, long service awards, maternity leave, sick leave, study leave/benefit and either CPF contributions or superannuation. The unique benefits received by the Buildo Singapore employees were the result of the different health systems between the two countries. Buildo Australia had provision for long-term illness and (previously free, but now contributory) health and dental insurance for its staff employees, while the Singaporean plant covered health and hospital needs for its staff employees as well. Provision of car and mobile phones seemed on a similar scale for managers in both companies. The Australian affiliate's employees had the opportunity to purchase Buildo MNE shares; the Singaporean plant employees did not have the same opportunity.

It was mentioned earlier that Buildo Australia and Singapore produced very similar products and both were medium-sized plants. Nevertheless, some internal differences had a large impact on their compensation systems. The first was that by its geography, Buildo Australia had closer reporting relationships to the Building and Industrial Products Division of the steel business and was 100 per cent owned by the Australian corporate Buildo MNE. This meant that the corporate MNE applied some common HRM policies to its subsidiary in Australia. By contrast, as Buildo Singapore was only 50 per cent Australian owned, the other partner had some say in the salaries of executives. The other difference was the unionisation of the Australian site which immediately meant that management had to work with the award and industrial tribunal system.

As noted earlier, there was more involvement from head office in both plants in the compensation of managers than for lower level employees. Buildo Australia's steel sector head had an ethnocentric orientation to managerial pay structures in Australia, but the corporate MNE head office only sought standardisation of superannuation, health insurance and employee share plans. For Buildo Singapore, the Buildo corporate MNE head office controlled the Australian expatriate's compensation through its international Division in conjunction with the regional office and local board, but was polycentric in orientation in relation to the rest of the managerial staff and the non-managerial employee compensation.

Conclusion

After three case studies, some replication of findings is occurring that will assist in developing an explanatory framework and set of propositions. The first finding is that each of the subsidiaries analysed so far had more than one separate compensation system. Buildo Australia had three compensation systems and Buildo Singapore had four systems. Second, despite operating in the same macro environments, the pay systems varied within the same country as well as between countries, as was the case in Buildo. This would suggest that the external environment is not the sole determinant of compensation and that management in a host or home country can use some discretion in the design of its systems. Thus in Buildo Australia, the operators were subject to a type of indexed gain-sharing system whereas Oilco Australia and Foodco Australia had skill-based structures without incentives. Similarly, in Singapore, Oilco Singapore and Foodco Singapore had operators' structures incorporated in collective agreements while Buildo Singapore had its own non-union design. Applying the Gomez-Mejia and Balkin (1992) Algorithmic and Experiential pay patterns to display clusters of pay decisions, within Oilco Australia, Foodco Australia and Buildo Australia, Algorithmic pay patterns dominated compared with more mixed profiles across the respective Singaporean affiliates.

From the findings, it has also emerged that each element of the external environment may affect each feature of compensation in different ways. Some external elements may allow no discretion to affiliate management whereas others may allow wide scope. An example is the legislation for the CPF in Singapore and FBT in Australia which imposes mandatory payments on the employer. In contrast, legislation or awards stipulating minimum conditions may allow the subsidiary to exceed these standards if it so desires. The third pattern emanating is that it is usually the structure and level of managerial compensation (as opposed to other occupational categories) where the discretion of the affiliate may be curbed by the involvement of the corporate MNE head office (like the Oilco managerial structures), the divisional head office (Buildo Australia steel division) and/or regional head office (Foodco Singapore and Buildo Singapore). The involvement ranges from *administering* expatriate pay systems, to *imposing* a particular structure or *approving* levels of individuals' pay. This is due to the international orientation of the head office and preference for standardisation and replication of pay systems. All cases display MNE integration and differentiation of pay systems with high degrees of affiliate autonomy for non-managerial compensation.

In relation to the initial research questions in Chapter 4, it is apparent that, as mentioned above, legislation can provide a constraint on the subsidiary, but changes in industrial relations laws may also provide an opportunity for an affiliate to pursue a different compensation system as was the case in Oilco Australia and Buildo Australia. The macroeconomic environment has an influence on the product market for an MNE, but in relation to compensation design, the interviewees discussed the impact of the labour markets on levels of pay and the extent to which they would implement recommendations, principles and decisions of National Wages Council (Singapore) and the AIRC National Wages Cases (Australia) in pay levels and structures. Recognised unions in the affiliates also used these recommendations in their negotiating strategy (Foodco Singapore). With expatriates excluded, a subsidiary interacts with a set of local and national labour markets for its staff, and has to adopt strategies to attract and retain host country employees. Expatriates in Oilco Singapore and Australia, Foodco Singapore and Buildo Singapore only appeared affected by host country taxation laws and by the cost of living in the host country as these affected their allowances.

From the three cases, national culture could not explain all differences in compensation design in the affiliates. Interviewed Buildo managers had difficulty in making a direct link between national culture and compensation design and tended to speak in more general terms. However, the testing of the Hodgetts and Luthans (1993b) propositions for compensation in countries with particular cultural dimensions (Hofstede, 1980) shows that the support from the three case findings so far has been very uneven. This would suggest that other variables are more significant although this is not to say that the other external variables, such as the industrial relations systems, are not affected by national culture as well.

More conclusive as a determinant was the industrial relation systems of the two countries. Buildo Australia and Oilco Australia recognised unions and were therefore subject to awards and negotiated agreements that were ratified by the AIRC. By bargaining with unions, an industrial tribunal will assess the agreement against local host country rules, which will mean that MNE agreements will bear similarities to locally owned companies. Non-recognition of unions means that the MNE has theoretically more scope to design an agreement that may be more suited to facilitating its business goals, possibly the case for Buildo Singapore.

The three cases so far have shown differences in employee benefits provided by the affiliates but have also indicated a high degree of similarity of provision. The differences can be attributed to differences in public health cover, leave legislation and national standard of conditions established by test cases by unions in Australia, as is the situation on Buildo. Organisational culture of the MNEs is arguably reflected in the high number of similar benefits in the respective affiliates of the same MNE.

Finally, characteristics of an industry have been shown to be another important external variable for an MNE affiliate, and these, in turn, may affect internal variables such as competitive strategy and HR policies. The competitive nature of the construction supplies industry meant that there was a strong focus in Buildo Australia and Buildo Singapore on achieving production deadlines, minimising costs and offering good service. These factors were included in incentive targets and standards.

The case studies so far have revealed the interaction of a number of the elements of the external environment, particularly legal and industrial relations (both countries), government and union structure (Singapore), economy and formal incomes policies (both countries). Moreover, internal variables possibly interact with external ones in MNE subsidiary compensation design. The size of the subsidiary may be correlated with the degree of formality in the pay systems. The redesign of compensation system may also be part of an overall change in HRM strategy and practices as was the situation in Oilco Australia.

CHAPTER TEN

THE METALCO COMPANIES

Metalco Australia

Company Background of Metalco Australia

Metalco Australia was a remotely situated smelting plant in the metals industry, the plant being one of three smelters around Australasia belonging to a metals processing and manufacturing company. Two-thirds of the shares in the processing company were owned by corporate MNE Metalco, which, in turn, recently merged with a major British mining MNE. The remaining one-third balance of shares was owned by financial institutions and the general public. The processing company had its own board, but corporate Metalco MNE had two directors sitting on it to provide the managerial link. The head offices of the metal processing company and the corporate Metalco MNE head were located in Melbourne. The company had four business units with a high degree of autonomy, and the smelting plant selected for study was part of one of these business units. Figure 10.1 shows the relationship.

Figure 10.1

Corporate MNE Metalco Relationship to Plant for Study

Main Australian MNE with own board (corporate MNE Metalco), now merged with British MNE

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Metal processing and manufacturing company with own board
(67 per owned by Australian MNE)

|

Company divided into four operating business units

|

One business unit with 3 processing plants

|

Selected processing plant for study (Metalco Australia)

The smelter was built in 1955 and the corporate MNE Metalco bought it in 1961. It could produce more 120,000 tonnes of metal per year, an output that was then converted into a range of semi-finished goods at the metal company's other plants. In 1994, output was trimmed to 90,000 tonnes per annum. The annual value of Metalco's products varied according to the prices on the London Metal Exchange, and were also influenced by the mix of products, demand, and to a lesser extent, by fluctuations in exchange rates.

Organisation of Metalco Australia

Corporate MNE Metalco companies had a common structure of seven levels including the corporate MNE Managing Director (MD)/CEO. For its compensation system, the MNE allocated staff to one of 7 pay strata as follows:

- **Stratum 7** - Corporate MNE Metalco MD/CEO.
- **Stratum 6** - Corporate Group Executives in the corporate MNE head office who acted as a college with each responsible for a group of business units.
- **Stratum 5** - Managing Directors of business units. (There were 4 business units in the metal processing company)
- **Stratum 4** - General Managers who would usually manage an operating site.
- **Stratum 3** - Managers of Mutual Recognition Units (MRUs) or Principal Advisers.
- **Stratum 2** - Superintendents.
- **Stratum 1** - Supervisors, Clerical Staff, Tradespersons and Operators.

Strata 1–5 were distinguished by the complexity and decision time span of the job. Each business unit had common strata. The theory of the Mutual Recognition Units (MRUs) was that the manager 'was able to recognise all the people in that unit', said a corporate MNE manager. The organisational structure for Metalco Australia was as follows:

- **Stratum 7** - Corporate MNE Metalco MD/CEO, who was also chairman of the metal processing company
- **Stratum 6** - Group Executive responsible for group of business units including the metal processing company
- **Stratum 5** - Managing Director of Business Unit
- **Stratum 4** - General Manager, Metalco Australia plant
- **Stratum 3** - Managers of MRUs/Principal Advisers on the site
- **Stratum 2** - Superintendents of operational areas and specialists in staff roles
- **Stratum 1** - Some supervisors (although they were being phased out) and all award-covered or equivalent individually contracted employees such as tradespersons, operators or clerical staff.

The superintendents would eventually be the first line managers, as supervisors did not have the right to 'hire and fire'. At the end of 1992, the Metalco Australia plant had about 840 employees (500 operators, 100 mechanical and electrical tradespersons, 150 technical and service staff, 60 superintendents and supervisory, 20 clerical and administrative and 12 managerial staff). By 1995, this number had declined to about 650 employees, of which about 440 were tradespersons and operators. The site did not employ sales and marketing staff, as these were centralised in the processing company's head office. The shopfloor was predominantly male. There were only about 12 part-time staff, but casual personnel were used in service roles, and there was heavy use of contractors for maintenance and project work.

The Metalco Australia operating process was divided into three MRUs (departments). In addition, there were support and service MRUs such as personnel, site services, administrative services (including finance), data processing, environmental health and safety and engineering services. An updating of technology in some areas of the plant in the late 1980s enabled the management to introduce a team and team leader structure which reported to superintendents, the supervisor role having been phased out in those areas. The site did not have a separate corporate philosophy, but the corporate MNE's culture would 'pervade into this', according to a General Manager. While Metalco Australia had its own TQM program, it was not very competitive by world standards.

Production Technology of Metalco Australia

The smelting process had three main stages: manufacture of product, conversion of one product to another and alloying and casting. The technology consisted of baking furnaces, potrooms to convert products into molten metal, and casting molten metal into solid forms such as ingots, billets and bars. It was thus very capital intensive, although not so intensive as mining. Two-thirds of the plant's output was sold in Asia and one-third in Europe. As mentioned earlier, the smelter was originally built in 1955, and was taken over by Metalco in 1961. The upgrading of the current technology requires an investment exceeding A$400 million.

Mission and Objectives of Metalco Australia

As a mining company in the main, the Australian/British conglomerate MNE saw itself as a 'price taker', so its focus was on efficiency of operations, continuous improvement, new investment opportunities, and building 'enduring partnerships' with the people in the areas in which it operated. The corporate MNE Metalco goals included 'serving its customers better than its competitors ... , being world class in all its businesses and creating wealth which allows it to grow and provide satisfactory return for its shareholders'. It emphasised continuous improvement, safety, employee involvement, single staff (i.e. white collar) status for each operating site and innovation. The Metalco Australia plant's main objective was generating the maximum possible amount of value-added products at the least cost. Quality and reliability of supply were also important. Unfortunately, the Metalco Australia plant had a somewhat 'brittle' industrial relations climate up to the early 1990s, with entrenched work practices and a high level of lost time injuries. The manager interviewed attributed the 'macho' culture partly to the uncertainty about the future of the plant. If operators went on strike in the past, there was an agreement to let the technical and managerial staff run the plant. Otherwise, it would have taken three months to resume operations.

HRM/IR Organisation of Metalco Australia

In the Metalco Australia business plan, human resources were not highlighted as a separate function, 'but some business unit objectives are of a human resource type', said a manager. Although the personnel philosophy was not in writing, HRM policies at the plant were formally documented 'to ensure fair treatment'. Corporate MNE Metalco set MNE-wide organisation principles, but the manager continued that it was 'a fine point as to whether Managing Directors (MD) have freedom to develop their own systems within the [Corporate MNE Metalco] principles. [The MNE] may express principles but the MDs may have to "operationalise" them'. While the work of Elliott Jacques (1961) had influenced the company to structure on a 'strata' basis, corporate MNE Metalco did not use the 'time span of discretion' as the basis of job evaluation system for individual jobs. The MD of the metal processing company, of which the Metalco Australia plant was a part, was on the group executive of the MNE. He was advised of MNE-wide issues, according to another manager, and would have to abide by corporate MNE policies.

Industrial relations in corporate MNE Metalco were driven by the individual companies. Each MD had the autonomy to set the industrial relations strategy for his/her own company, although an employee relations strategy document from corporate MNE Head Office discussed the principles of Freedom of Association, Employment Contracts, EEO and Occupational Health and Safety. The broad compensation system for the MNE was laid down by its head office, but the MD of the processing company and his team were involved in the salary and performance guidelines for the individual business units and their plants. While the head office of the processing company had assisted greatly with the negotiation of enterprise flexibility agreements in Metalco Australia, the ultimate accountability was with the site's General Manager.

There were only four corporate Australian MNE head office advisers, specialising in compensation, employee relations, employee policy and planning, and superannuation. The employee relations skills were with the business unit management, which was not required to get advice from corporate head office. Each operating company had to develop its own HRM policies and practices to suit its own circumstances. The HRM department of the headquarters of the metal processing company had four HRM/IR specialists in areas that included payroll, occupational health and safety, as well as employee relations. The Personnel Department at the Metalco Australia plant for study consisted of a Principal Personnel Adviser paid at Stratum 3, three people in Stratum 2 (1 each in employee relations, training and staffing) and two people in Stratum 1. The personnel unit was not large, and the MRUs had their own training people. Much of the personnel function had been delegated to the line managers.

There were consultative committees for training, but not for negotiations over the pay systems. Past changes in the award had been negotiated between the trade union officials and the Stratum 2 Employee Relations staff. A HRM strategy for award staff was developed for the Metalco Australia plant in the early 1990s, its main thrust being to minimise the third party (trade union) role. The philosophy of the corporate MNE was that it was management's right to design systems and to work directly with the employees.

Because of the pressures on cost cutting, Metalco Australia had to change its attitude towards work practices. There used to be a system of minimum manning, which could be misused to inflate total wages available to operators. When operators reported in sick, others would cover their absence with overtime, but 'institutionalised' overtime decreased in recent years. The smelter worked continuously, 24 hours per day, 7 days per week. The working week for shift operating staff was originally 7.00 am to 3.00 pm, 3.00 pm to 11.00 pm and 11.00 pm to 7.00 am on a 40 hours per week basis. Day operating employees worked 38 hours per week. From August 1994, the site moved to 12-hour shifts and 40-hour weeks for day workers and 42-hour weeks for shiftworkers. Day staff and management nominally worked between the hours of 8.00 am and 5.00 pm but 'put in whatever hours are necessary', said the site ER manager. There was an expectation that people would work overtime without being paid extra.

Unionisation of Metalco Australia

At the beginning of the 1990s, union membership of the blue collar and clerical staff at the Metalco Australia site was about 90 per cent, but the plant changed its attitude towards unions and ceased the check-off system for one union in 1991 and for two others in 1992. The three main unions — the then called Federation of Industrial, Manufacturing and Engineering Employees (FIMEE), Electrical Trades Union, and Metal and Engineering Workers' Union — applied to the AIRC to have a union preference clause inserted into the enterprise award in 1992, but this was rejected by the AIRC on the grounds that it would make HRM too bureaucratic. Preference to unionists in selection, termination, promotion, training, annual leave and overtime also did not sit well with a competency-based pay system. Membership of unions became voluntary, and decreased to an estimated 25 per cent by 1995. The major trade union recognised for industrial staff was the (now called) Australian Workers' Union–FIME Amalgamated Union which covered 80 per cent of industrial employees. Two other Unions — the (now called) CEEEIPPASUA[1] and AFMEU[2] — covered the remaining 20 per cent. There were a few staff in the Australian Municipal, Administrative, Clerical and Services Union (AMACSU) (formerly Federated Clerks' Union of Australia). Shop stewards negotiated the awards and were involved in their restructuring. The negotiations occurred with one union at a time because the AWU–FIME moved faster than other unions in the restructuring process. The smelting industry has traditionally had enterprise agreements, and shop stewards were recognised for negotiation purposes, but according to the executive interviewed, were becoming less so. Because of the move to staff status (individual contracts) for the

[1] CEEEIPPASUA stands for the Communication, Electrical, Electronic, Energy, Information, Postal, Plumbing and Allied Services Union of Australia.

[2] AFMEU is the Automotive, Food, Metals and Engineering Union

operators and maintenance employees, there was no longer any formal negotiating machinery.

In 1992, Metalco Australia changed its industrial relations strategy and in attempting to develop an enterprise agreement, proposed that it be negotiated at the plant between employee representatives and management, with union representatives excluded from discussions. Not surprisingly, this suggestion was rejected by the unions After the 1993 cut-off date, Metalco Australia did offer major rises to the industrial employees in May 1995 if they agreed to sign individual staff contracts, which had the effect of excluding union involvement in determining their conditions. All but twelve employees signed the contracts, (a figure which had declined to two by September, 1996). The Industrial Relations Manager in the head office of the metal processing company was not aware of how many employees at Metalco Australia had remained in unions. There was only one union (AWU–FIME) delegate on the site.

An Overview of the Compensation Systems in Metalco Australia

The compensation system of Metalco Australia matched the 7-strata structure of the corporate Metalco MNE system. Stratum 1, which originally contained award-level staff, had a flexible range. The cut-off point between Strata 1 (award level) and 2 (Superintendents) was left up to the business unit Managing Director. The compensation for Strata 3–7 across the corporate MNE Metalco was set by the corporate head office in Australia. Strata 2, 3 and 4 had two pay ranges in each, called A and B, which overlapped, with A being the lower. There was no overlap of salary between strata, and no common job evaluation scheme in the corporate MNE. If a new job was created, it was not immediately obvious what the pay should be, according to an executive interviewed. For a new managerial job, the manager once removed (Managing Director or General Manager) decided the appropriate stratum. For example, if a new Departmental Manager position was established, the Managing Director would have to decide if Stratum 3 pay was appropriate. If the position was lower than Departmental Manager level, then the General Manager would decide. The strata salary ranges were quite wide. Differences between strata and differences in work were quite easy to determine, but the pay bands within the strata were more difficult to handle.

At lower levels of the salary structure, there was more divergence in salaries. Stratum 3 employees were deemed staff of a business unit, and their pay bands were determined by the corporate MNE Metalco. Selection and appointment to a pay band was a decision of the local manager and his or her superior, but Strata 4 and 5 were corporate head office decisions. Progression through the pay band was a decision of the business unit, but promotion beyond Stratum 3 had to be a corporate MNE head office decision.

Guidelines from corporate MNE Metalco provided that all jobs should be in band A (the lower band of the strata) unless there were good reasons for choosing the upper level. Big operating roles usually went in band B; service and staff positions were usually placed in band A. The basis for decisions was the complexity of the work, and the dollar and immediacy of impact of decisions. For a new management position, (for example a 3B role), the new incumbent would probably have started at the bottom of the range and progressed through at a rate that reflected personal effectiveness. The company used five years as a benchmark for reasonable contribution and progression from the bottom to the top of the grade. A person who had significant experience could start higher up the band. The philosophy was, therefore, to pay for the role and not the person, but there was flexibility. It was possible to pay more than the job was worth to meet market demands and the appropriate person for the job. For Stratum 3 and upwards, corporate MNE Metalco Head Office decided the boundaries of strata based on the Consumer Price Index, average weekly earnings movements, and the perceived pay patterns in other companies.

The boundaries of the strata were announced once a year after compensation data exchanges at the national Canberra Conference of Australian HRM specialists and the Mining Industry Conference. However, the corporate MNE HR representatives found it difficult to compare strata rates with other companies as the system was so different from 'normal' salary structures. The strata boundaries were decided by the corporate MNE Board executive committee. In addition to movements in average weekly earnings, global compensation trends and the company's capacity to pay were considered. There was some difficulty if some companies in the MNE group were doing badly and some doing well. Because of the common structure, boundaries had to be set to accommodate all the companies, despite their performance. While the executive committee of the MNE set the general compensation increase in the strata structure, extra pay for merit was a local decision. The main compensation system was, therefore, largely centrally driven and imposed across the country. An MD of a group of business units could set Stratum 1 wage levels, but had to be careful not to compress supervisors' and superintendents' compensation relativities. In the last fifteen years, the major change had been to minimise the number of strata. The removal of overlapping boundaries was another major change. Prior to the strata system, the salary structure was basically a Hay system.

Industrial Staff Compensation in Metalco Australia

The pay philosophy for industrial staff moved from paying for the job/classification by way of a site federal award to paying for skill and performance on individual contracts against a backdrop of AIRC NWC principles and a change in HRM strategy. Since the introduction of the strata structure, the operators and tradespersons had been paid in the Stratum 1 range.

From the time of the smelter's opening in 1955 until 1977, compensation for the industrial (blue collar) employees on the Metalco site had been determined by a succession of unregistered agreements. A site agreement was eventually registered with the AIRC in 1977, and after many variations, was consolidated into another site federal award with 11 unions in 1983. This was a paid rates award (i.e. actual entitlements rather than minima) for the period commencing 1 April 1982. The award contained 62 fixed pay points covering nearly 120 different classifications or job titles. Leading hands received additional allowances according to the number of staff they supervised. Unapprenticed junior male employees from 16 to 18 years were rewarded according to age. Apprentices were paid a percentage of the tradesperson's rate for each year of apprenticeship. Special allowances were provided for working in confined spaces, and for high, hot and wet work sites. A service payment was made, and amounts ranged from 6 to 84 months pay according to length of service. The award spelt out the various types of leave provisions, overtime, shiftwork, and protective clothing conditions.

From 1983 to 1986, the rates in the award rose in line with the NWC indexation (inflation) decisions of the AIRC and again in 1988 for progress on reforming work practices. By 1990, Metalco and the unions were still appearing before the AIRC for increases under NWC principles. The structure of the compensation was still based on more than 40 different fixed pay points and more than 60 job titles. Leading hands still received an allowance according to the number of staff supervised, and various increments were paid for service of more than six months. After conflict over new structures, the AIRC decided to arbitrate on the wage structure, and created a five-level skill-based structure for smelter tradespeople. This was followed shortly afterwards by a five pay-level, skill-based structure for smelter operators. Length of service and A$8.50 per week tool allowances were absorbed into the new base rates. A matrix of skills was negotiated at the plant, and staff were given additional pay for extra skills. Special rates for dirty, wet, confined, high and hot work sites still prevailed in December 1991, and Metalco still had to negotiate with 10 unions.

At the beginning of 1991, the company introduced an Overtime Incentive Scheme (to discourage the working of overtime) and a Performance Payment System for award staff. A sum of about A$500 was given to employees as a bonus, depending on the number of points achieved in a performance appraisal system. Superintendents made decisions about the allocation of money based on criteria which were translated into points and then into money. Strictly speaking, these schemes, which continued to apply until May 1994, were in conflict with the paid rates nature of the site award and were subject to discussion by the AIRC later.

The AIRC NWC increase of April 1991 was passed on to the operators and trades people in January 1992, and allowances were also raised. In early 1992, the unions approached Metalco Australia about the negotiation of a certified enterprise agreement under the legislation existing at the time. However, the company management wished to negotiate directly with employees rather than with union officials, have a non-union agreement with the option of moving award employees on to staff (individual contract) conditions. As at 1993, Metalco Australia had not achieved this.

Clerical Compensation in Metalco Australia

The clerical salaries for the Metalco Australia site were determined individually and were not based on job evaluation. In 1985, a federal clerical award was registered with the AIRC for all clerical staff in the metal processing company (including its head office) of which the plant for this study was one of its operating units. This award placed all clerical jobs into four grades, with Grade 1 being the highest and Grade 4 the lowest. Grades 1 to 3 had salary ranges but no annual increments shown. Grade 4, the commencing grade, had annual increments for the first 4 years of service plus 3 possible salaries (Column A, B or C) according to job. For example, at Metalco Australia, a Filing Clerk would be paid on 4A, a Typist/Clerk on 4B and a Stenographer on 4C. An Accounts Clerk would be remunerated on Grade 3, a Key Punch Supervisor on Grade 2, and a Secretarial Supervisor on Grade 1. A pay-for-age scale was included for employees aged 16 to 20.

From 1985 to 1990, the salary levels were increased in line with the AIRC NWC recommendations. With the advent of the AIRC NWC 1987 Restructuring and Efficiency Principle, by which the AIRC would only award pay increases if the parties to the award had agreed measures to improve efficiency at workplaces (e.g. multi-skilling, retraining, broad-banding and reduction of demarcation (jurisdictional) barriers), negotiations between the metal processing company and the former Federated Clerks' Union started at each processing site including Metalco Australia. The gains obtained by the company included replacing salary payment by cheque with electronic funds transfer into bank accounts, abolition of tea breaks, reduction of overtime, increased flexibility, and reduction in staffing levels. These met the AIRC NWC criteria in March 1988 and salary increases were awarded. The structure remained unchanged until 1990 and was enhanced by AIRC NWC recommended increases.

In a March 1990 decision, the metal processing company and the (then) Federated Clerks' Union agreed to begin talks on award modernisation. By December 1990, the union had indicated that 'it was prepared to discuss all matters raised by employers and employees in an enterprise' with a view to encouraging enterprise agreements. In July 1992, the hours of work for clerical staff were 38 per week. Time off in lieu of paid overtime could be granted where work was done outside normal working hours. Allowances were paid for shift work, and annual leave was 4 weeks after 12 months' service. There was also a push towards paying for skills. Metalco Australia introduced a training skills matrix, so secretarial staff could have a career path into administrative or computing jobs. The matrix identified particular skill levels and was unique to the Metalco Australia plant. Extra skills could be obtained on or off job through a Technical and Further Education college or in-house training.

As at 1993, the original job-based 4-grade salary structure with a length of service provision for Grade 4 still operated. The classifications were determined by the AIRC and survived for a long period, while the levels were regularly raised in line with NWC recommendations.

Administrative and Technical Compensation in Metalco Australia

The Metalco Australia administrative and technical employees were allocated to operating or non-operating Mutual Recognition Units (MRUs). Engineers were in operating MRUs and included chemists, metallurgists, electrical engineers, materials engineers and some mechanical engineers. All these staff were employed under the corporate MNE Metalco compensation structure. Many of these employees were graduates who started as Stratum 1 and then moved to Stratum 2 over two or three years irrespective of their role, although this was constrained by the number of vacancies available. There was no fixed establishment in the company, and the number of graduates appointed was decided by the Managing Director and Site Manager.

Staff were subject to a Personal Effectiveness Review and were given special training to give them experience in a number of roles over a two- or three-year period. In the operating areas, supervisors were in Stratum 1 and were paid more than the operators and tradespersons. There was no overtime pay or performance bonus at this level, although performance was recognised in the salary review. Some were on shift, but most graduates were day workers. No profit-sharing or gain-sharing plans applied. The philosophy of pay was, therefore, consistent with the corporate MNE Metalco compensation system. In some areas of management, the MNE provided guidelines that local management could adapt for compensation determination. Local management could not change them radically because the system was centrally controlled. There was a potential under the group system to pay a premium over and above the grade, but this was separately recorded so that it did not roll into the rate for that job. Seniority reflected increasing experience and the ability to do more, but was not officially recognised with length-of-service increments.

The administrative and technical employees were subject to the same appraisal process as that for the industrial and clerical employees. The Personal Effectiveness Review (PER) system was common in the metal processing company, and there was a right of appeal to the supervisor's manager. However, 'the PER's implementation was "patchy"' across corporate MNE Metalco, said a manager. The system was fairly unstructured. The manager made decisions about salaries of subordinates within the strata and took a range of factors into account. In the Metalco Autralia plant, there was a 0–100 scale (performance assessment). A score of '30' was the limit of low acceptable performance, with '85' being a very good performance. A score of '85' to '100' would be considered outstanding. There was a mathematical formula to translate this score into a dollar change in salary. This was the 'first cut' in order to ensure managers were comparing like with like. The managers put up their lists together to show scores so that they could discuss comparability. In a sense, they were comparing 'apples and pears', stated a manager, and so the managerial meeting was a moderating process. In addition to the assessment factor, there was the general review of the levels of the strata, which were held at the corporate MNE head office.

The performance appraisal (PA) score and the PER were related to the task assignment and business plan. Each person had major tasks through the year outlined and the extent to which objectives were achieved was reflected in the PA score. The way the work was done was really the basis for the PER. In other words, the PA score was the end point and the PER looked at the means. That, in theory, was the way it should have worked.

In summary, for the administrative and technical staff, the size of the job determined the stratum for the pay range, while progression through the pay range depended on merit and performance. The general level of the compensation system was decided at the corporate MNE head office.

Managerial Compensation in Metalco Australia

The corporate MNE compensation system of seven major strata which governed the managerial salary structure has already been discussed above. Under this system, plant general managers and principal advisers were on salaries in Strata 4 and 3 respectively. There was no overlapping in the strata. In 2, 3 and 4, there were two pay bands — 'A'(lower) and 'B'(higher) — which did overlap. 'A' was a range for support staff and 'B' was for operating or people management roles. The Metalco Australia General Manager in Stratum 4 was paid in the 'B' range as he was in charge of the whole operation. In Stratum 3, the 'A' range covered support and service roles such as personnel, administration and site services. Band 'B' in Stratum 3 was the basis of the pay for managers of the pot room, carbon and casting (i.e. the operating managers). A similar distinction applied in Stratum 2. The pay differentials were important, and have been preserved. There was no pay-for-performance other than for merit for Strata 3 and 4.

Strata 3 and 4 staff were subject to the Personal Effective Review which was a form of pay-for-performance. The manager was judged not only on the quantitative output, but also on the way he or she went about the work (i.e. the process). The Business Planning process was completed in October each year. The context was set by Strata 6 and 7 staff. The critical tasks for General Managers and Managing Directors were collected together in the business unit plans. This was also done for Stratum 2 and 3 (including the HRM staff) at the sites. The tasks were supposed to be written in terms of quality, quantity, resources and time although as one executive put it, 'what can you say about "x" tonnes?' The MNE was trying to encourage the writing of tasks in terms of systems identification and improvement instead of quantitative outcome measures. For example, if one wanted to increase the quality and purity of a metal, there should have been emphasis on the process which affected the purity. The pay for individuals in Strata 3 and 4 was secret.

The Stratum 4 employees were employed by a corporate MNE Metalco Services company. As mentioned earlier, Strata 3, 2 and 1 employees were employed by the business unit. This was important, because the Stratum 4 contract stated that an employee was assigned to a particular business unit and that the assignment could be changed at any time (e.g. an executive committee might have re-assigned someone to a different company). The employee had to accept this assignment or resign. If resignation occurred, no retrenchment benefit was paid. In other words, corporate staff had to go where they were sent. For employees on Strata 3, 2 and 1, their contracts nominated the business unit as their employer and these units had different practices for redundancy. If another role was offered to an employee and this was refused, the distinction between resignation or redundancy varied. This area was more confused.

In summary, managerial compensation at Metalco Australia had to conform to the structure of the corporate MNE Metalco. The type of job determined the stratum in which it was placed, and its minimum and maximum pay ranges. Progression through the stratum was dependent on performance while the general level of the whole stratum structure was adjusted annually in line with market rates and the capacity of the MNE to pay.

Employee Benefits in Metalco Australia

The common benefits for all levels of staff at the Metalco Australia site were as follows:

- Annual leave
- Compassionate leave
- Early retirement provision
- Funeral leave
- Maternity leave
- Paternity leave
- Provision of uniforms/overalls and other clothes
- Public holidays
- Reimbursement for business related travel
- Retrenchment benefit
- Share ownership
- Sick leave
- Study leave/benefit
- Superannuation.

Under the site agreement for the industrial (unionised blue-collar) employees, additional benefits included in the award as at 1993 were: (1) Meals supplied or money given in lieu after working overtime, (2) Sick leave of 114 hours per year accumulating to a maximum of 65 weeks, and (3) Laundry allowance. In 1992, under the federal award for the Metalco Australia clerical staff, benefits in addition to the common list above included make-up pay for jury service, accumulated sick leave and adoption leave.

Those on staff conditions were presumed to pay their own premiums for private medical cover. The corporate Metalco MNE then contributed to a scheme for supplementing the medical benefits of this cover for their employees and their families. Staff conditions also included membership of the corporate MNE superannuation scheme which had a life insurance element. In 1993, managers were entitled to long-term illness leave at management discretion, personal life insurance (which was given to clerical and technical staff as well), housing loans, cars and business entertainment expenses. The Strata 3 and 4 employees received the appropriate car for their stratum. Managers in Stratum 3 got telephone rental paid, whereas the General Manager (in 4) had all his telephone rent and bills paid. Staff in Stratum 3 and below had little choice in their benefits except that Stratum 3 employees could chose the type of company car they desired. With Strata 4 staff, there was some choice of benefits, as the corporate MNE Metalco uses the total cost of employment as the way of calculating the manager's package.

There were two forms of share-ownership schemes for staff. Stratum 4 employees had access to the corporate MNE Metalco Executive Corporate Shareplan which had more options and no forced saving element. The rest of the staff had the option of purchasing shares at a set price and being members of the corporate MNE Group Employee Share Plan. They could divert some of their salary into an account which was used to buy these shares (i.e. a forced saving concept). There was no profit-sharing scheme.

The possibility of salary sacrifice for extra benefits in the company was emerging, but was on hold in 1992. Its implementation depended on whether or not the federal government changed the tax rules, which might have affected the difference between company and personal levels of taxation. Salary sacrifice was applied to the provision for child-care for all staff. If staff were paying for child-care, they could ask Metalco to pay the fees from pre-tax salary. However, this was only tax efficient if someone was earning more than A$35,000 a year (in 1992). The benefits profile by employee category is shown in Table 10.1 from which it can be seen that several benefits were unique to management.

Relationship of Metalco Australia to Corporate Head Office

It will be recalled that the Metalco Australia operating unit was part of a metal processing company which had its head office in Melbourne, as did the headquarters of the corporate MNE Metalco. As noted earlier, the corporate MNE headquarters was thinly staffed and contained only four HRM/employee relations advisers for the whole MNE. They acted as internal consultants for the MNE sites in Australia and the United States, but the Managing Directors of the local business units ultimately made the final decisions. The corporate head office was involved in the general salary levels of the strata and senior appointment salaries. The plant ER manager confirmed that the site was fairly autonomous in its HRM/IR and but that there was 'a heavy corporate influence on site'. The plant's management let corporate MNE head office know 'what is going on' and 'we get support from [corporate MNE Metalco] head office because of the size of the decisions'. The plant sent representatives to appear at the AIRC and could draw on 'resource support' from the corporate MNE and metal processing company head offices. The plant could manage its industrial relations in its own way, but it had to be consistent with the principles of the MNE.

While compensation increases for staff needed metal processing company head office approval, the plant could decide increments for Stratum 1 staff on its own. The corporate MNE Metalco Superannuation Scheme and corporate medical benefits were administered from head office. The processing company group executive set the context for individual salary increases based on the performance of the plant. Information on salaries for smelters was collected by the processing company head office HRM staff. They monitored systems on the company's sites to get a consistent

Table 10.1

Employee Benefits Profile for Metalco Australia as at 1993

	Industrial/ Blue Collar Unskilled	Skilled	Clerical/ Admin	Sales/ Technical	Professional/ Management	Board
Acting allowance						
Annual leave	✓	✓	✓	✓	✓	
Attendance allowance						
Business entertainment expenses				✓	✓	
Cellular phones						
Co-operative shares			✓	✓	✓	
Compassionate leave	✓	✓	✓	✓	✓	
Dental treatment						
Early retirement schemes	✓	✓	✓	✓	✓	
External/social recreational club membership						
Festive loan/advance						
Fixed monthly transport allowance						
Free medical treatment/medicine						
Funeral leave benefit	✓	✓	✓	✓	✓	
Hospital ward benefit			(1)	(1)	(1)	
Housing loan					✓	
Housing renovation loan						
Laundry benefit						
Life insurance			✓	✓	✓	
Long service award			✓	✓	✓	
Long-term illness			(2)	(2)	✓	
Machine allowance						
Marriage leave						
Maternity leave	✓	✓	✓	✓	✓	
Meal allowance	✓	✓				
Medically board-out benefit						
Other loans					✓	
Paternity leave	✓	✓	✓	✓	✓	
Provision of car				✓	✓	
Reimbursement for use of own car on company business		✓	✓			
Retrenchment benefit	✓	✓	✓	✓	✓	
Service benefit						
Shift allowance	✓	✓				
Sick leave	✓	✓	✓	✓	✓	
Specialist surgical fee						
Study leave/benefit	✓	✓	✓	✓	✓	
Superannuation (Australia)	✓	✓	✓	✓	✓	
Transport benefit/allowance/ reimbursement	✓ (3)	✓ (3)	✓ (4)	✓ (4)	✓ (4)	
Uniform	✓	✓	✓	✓	✓	
Union day leave						
Union education leave						
Unpaid leave			✓	✓	✓	
Voluntary resignation benefit	✓	✓	✓	✓	✓	

Notes:

(1) Some assistance with medical costs, but private medical insurance assumed. (2) Management discretion.
(3) In some cases. (4) For business-related travel.

group approach. This included obtaining consistency on salary packaging, car policy and home loans.

The Profile of Metalco Australia Compensation

In order to provide a comparison with Metalco Singapore, four occupational groups were selected, so Tables 10.2–10.5 show Metalco Australia's profile for the rewards of industrial, clerical, administrative/technical and managerial employees using the Gomez-Mejia and Balkin (1992) terminology of Algorithmic and Experiential compensation patterns. The **industrial** staff (Table 10.2) were originally paid for the job classification, then skill. The pay system had a short-term orientation, but some of the compensation was at risk on a small scale depending on individual performance. In summary, the industrial employee compensation showed a tendency towards Algorithmic features.

A similar pattern emerged for the **clerical** employees (Table 10.3), who were paid by the metal processing company award on a job basis, with a salary range for grades 1–3. The criteria for pay progression within the range was performance and more recently on skill. The system was based on individual performance and was short-term in focus. The existence of a metal processing company award ensured internal consistency. The clerical system thus showed stronger Algorithmic features than Experiential.

The Metalco Australia **administrative and technical** compensation (Table 10.4) was essentially job-based within the corporate MNE Metalco strata system. Increases were a combination of strata rises and merit rises. The performance appraisal was individual, and the compensation short-term in perspective. In general, the administrative and technical pay system had a more Algorithmic than Experiential profile, with a high degree of centralisation of strata.

The Metalco Australia compensation profile for **managerial** staff (Table 10.5) was, also, in general, an Algorithmic one. The compensation was essentially job–based with rises through merit and general increases in the pay strata. There was individual assessment, with a mixture of time orientations, low risk-taking and a plant focus.

Table 10.2

Summary Profile of Algorithmic (A), and Experiential (E) Compensation Patterns of Industrial Staff Compensation for Metalco Australia and Metalco Singapore as at 1993

Metalco Australia Industrial Staff			Metalco Singapore Industrial Staff	
	Compensation Feature	**A or E**	**Compensation Feature**	**A or E**
(a) Basis for Pay				
Unit of analysis	Skill - based	E	Job - based [5]	A
Criteria for pay increases	A$500 performance bonus	A/E [1]	Length of service for first 5 years	A
Level of performance measurement	Individual PA [2]	A	Not applicable	-
Time orientation	Annual PA	A	Annual company bonus	A
Risk sharing	Low - bonus only	A	Potential loss of annual company bonus	E
Strategic focus	Not applicable	-	Not applicable	-
Equity concern	Formal structure	A	Matrix used plus market level	A/E
Reward distribution	Differences in benefits	A [3]	Minor differences in benefits	A
Type of control	Points PA and evaluation of skill	A	No PA-not applicable	-
(b) Design Issues				
Salary market policy	Unknown	-	Unknown - but at least market rates	-
Benefits market policy	Unknown	-	Unknown - but at least market rates	-
Incentives in pay mix	Low	A	Profit sharing, but low percentage	A
Total compensation	Low future potential/higher immediate payoffs	A	Low future potential/ higher immediate pay offs	A
Reinforcement schedule	NWC increases and annual merit awards	A	Annual rises and bonuses	A
Reward emphasis	Mainly pecuniary	E	Mainly pecuniary[6]	E
(c) Administrative Framework				
Decision making	Plant agreement	E	Own system [7]	E
Pay disclosure	High - public AIRC document	E	Low - individual salaries	A
Governance structure	Union participation [4]	E	Non-union	A
Nature of pay policies	Formalised in awards	A	Scope for individual variation	E
	TOTAL	A = 10 E = 5 A/E=1 N/A=1[8] Unknown=2	TOTAL	A = 9 E = 4 A/E= 1 N/A=3[8] Unknown=2

Notes: (1) Pay increases were also given by National Wage Case awards. (2) PA is performance appraisal (3) These differences had been largely eliminated by 1996 because of the move to staff contracts. (4) Until move to staff status. (5) Pay was mainly based on job with market rate being important as well. (6) The General Manager did, however, refer to quality of life issues to retain staff. (7) Arguably this could be Algorithmic as the Regional Managing Director had to approve profit sharing levels. (8) Not applicable

Table 10.3

Summary Profile of Algorithmic (A) and Experiential (E) Compensation Patterns of Clerical Staff Compensation in Metalco Australia and Metalco Singapore as at 1993

Metalco Australia Clerical Staff			Metalco Singapore Clerical/Administrative Staff	
	Compensation Feature	**A or E**	**Compensation Feature**	**A or E**
(a) Basis for Pay				
Unit of analysis	Job classification	A	Job classification [2]	A
Criteria for pay increases	PA merit and NWC increases [1]	A/E	Tenure – no PA	A
Level of performance measurement	Individual PA	A	Not applicable	-
Time orientation	Annual PA	A	Annual overall bonus and review	A
Risk sharing	No risk element	A	Potential loss of annual company bonus	E
Strategic focus	Not applicable	-	Not applicable	-
Equity concern	Business unit award structure	A	Mainly market driven	E
Reward distribution	Differences in benefits [3]	A	Minor differences in benefits	A
Type of control	Points PA	A	No PA	-
(b) Design Issues				
Salary market policy	Unknown	-	Above market rates	A
Benefits market policy	Unknown	-	Unknown	-
Incentives in pay mix	None	A	Profit sharing, but low percentage	A
Total compensation	Low future potential/higher immediate payoffs	A	Low future potential/higher immediate pay offs	A
Reinforcement schedule	Mainly merit and NWC increases only	A	Annual rises and bonuses	A
Reward emphasis	Pecuniary	E	Mainly pecuniary	E
(c) Administrative Framework				
Decision making	Centralised company award	A	Own system [4]	E
Pay disclosure	High – public AIRC document	E	Low	A
Governance structure	Union participation	E	Non-union	A
Nature of pay policies	Bureaucratic	A	Case by Case	E
	TOTAL	A = 12 E = 3 A/E=1 U/K=2[5] N/A=1[6]	TOTAL	A = 10 E = 5 U/K=1[5] N/A=3[6]

Notes: **(1)** The introduction of staff status by 1996 had changed this more to skill and performance **(2)** Without formal systems and job descriptions, it could be argued that employees were paid for skills possessed as well. **(3)** The introduction of staff status in 1996 had reduced these differences in benefits markedly. **(4)** Arguably this could be Algorithmic as the Regional Managing Director had to approve profit sharing levels. **(5)** Unknown **(6)** Not applicable

Table 10.4

Summary Profile of Algorithmic (A) and Experiential (E) Compensation Patterns of Administrative, Technical and Sales Staff in Metalco Australia and Metalco Singapore as at 1993

Metalco Australia Administrative and Technical Staff			Metalco Australia Sales/ Technical Staff [1]	
	Compensation Feature	**A or E**	**Compensation Feature**	**A or E**
(a) Basis for Pay				
Unit of analysis	Job placed in strata	A	Job classification [2]	A
Criteria for pay increases	Adjustment of strata plus merit increase	A/E	Tenure – no performance appraisal	A
Level of performance measurement	Individual performance appraisal	A	Not applicable	-
Time orientation	Short-term	A	Annual overall bonus and review	A
Risk sharing	Low – merit increase only	A	Potential loss of annual company bonus	E
Strategic focus	Not applicable	-	Not applicable	-
Equity concern	Formal structure	A	Mainly market driven	E
Reward distribution	Some extra benefits for managers	A	Only minor differences in benefits	E
Type of control	Points performance appraisal system	A	No performance appraisal	-
(b) Design Issues				
Salary market policy	Unknown, but external comparability is important	-	Unknown	-
Benefits market policy	Unknown, but external comparability is important	-	Unknown	-
Incentives in pay mix	None	A	Profit sharing, but low percentage	A
Total compensation	Low future potential/higher immediate payoffs	A	Low future potential/ higher immediate pay offs	A
Reinforcement schedule	Mainly merit and strata rises only	A	Annual rises and bonuses	A
Reward emphasis	Mainly pecuniary	E	Mainly pecuniary	E
(c) Administrative Framework				
Decision making	Strata is central	A	Own system [3]	E
Pay disclosure	Individual pay confidential, but stratum known	A/E	Low	A
Governance structure	Centrally driven	A	Non-union	A
Nature of pay policies	Formal strata	A	Case by Case	E
	TOTAL	A = 13 A/E = 2 E = 1 N/A=1 [4] U/K=2 [5]	TOTAL	A = 8 E = 6 N/A=3 [4] U/K=2 [5]

Notes: (1) These classifications do not exactly match those in Metalco Australia. **(2)** Without formal systems and job descriptions, it could be argued that employees were paid for skills possessed as well. **(3)** Arguably this could be Algorithmic as the Regional Managing Director had to approve profit sharing levels. **(4)** Not applicable **(5)** Unknown

Table 10.5

Summary Profile of Algorithmic (A) and Experiential (E) Compensation Patterns of Managerial Staff in Metalco Australia and Metalco Singapore as at 1993

Metalco Australia Managerial Staff			Metalco Singapore Managerial Staff [1]	
	Compensation Feature	**A or E**	**Compensation Feature**	**A or E**
(a) Basis for Pay				
Unit of analysis	Job in strata	A	Job - based [2]	A
Criteria for pay increases	Adjustment of strata plus merit rise	A/E	Rises depended on performance and market	E
Level of performance measurement	Individual performance appraisal	A	Individual informal performance appraisal	A
Time orientation	Annual, and long term through shares for stratum 4	A/E	Annual review	A
Risk sharing	Low – merit increase only	A	Loss of company bonus only	E
Strategic focus	Plant performance colours objectives	E	Company/Business Unit performance	E
Equity concern	Formal structure	A	Some relativities, but mainly market driven	E
Reward distribution	Some extra benefits for managers	A	Managers received extra benefits	A
Type of control	Individual objectives set in quantifiable form	E	Informal performance appraisal	E
(b) Design Issues				
Salary market policy	Unknown, but external comparability is important	-	Unknown, but market worth important	-
Benefits market policy	Unknown, but external comparability is important	-	Unknown	-
Incentives in pay mix	Merit rises only	A	Profit sharing, but low percentage	A
Total compensation	Low future potential/higher immediate payoffs	A	Low future potential/higher immediate payoffs	A
Reinforcement schedule	Mainly merit and strata rises	A	Annual rises	A
Reward emphasis	Mainly pecuniary	E	Mainly pecuniary	E
(c) Administrative Framework				
Decision making	Centralised Strata	A	Own system [3]	E
Pay disclosure	Individual pay confidential; strata known	A/E	Confidential	A
Governance structure	Centrally driven	A	Non-union and regional input	A
Nature of pay policies	Formal strata	A	Flexible	E
	TOTAL	A = 11 A/E = 3 E = 3 U/K=2[4]	TOTAL	A = 9 E = 8 U/K=2[4]

Notes:

(1) Local managers (i.e. non-expatriate) only. **(2)** Without formal systems and job descriptions, it could be argued that employees were paid for skills possessed as well.

(3) Arguably this could be Algorithmic as the Regional Managing Director had to approve profit sharing levels. **(4)** Unknown

Managers received different benefits from the rest of the workforce, an infrequent reinforcement schedule, and low risk compensation. The decision making on pay was very centralised within a formal structure.

Metalco Australia Compensation and the External Environment

Turning now to the influence of the external environment on compensation design at Metalco Australia and the law in particular, the corporate MNE Metalco Remuneration Manager emphasised that there was a clear corporate policy to observe any laws that applied to the company, but that these were a minimal standard only. She continued:

> I do not see the minimum wages in awards as a problem for us. The industry pays above the minimum, so it is not a driving force... On EEO, we have a conscious and publicly stated philosophy... It applies to both men and women, but we think it should apply to reducing closed shops... Each person should have an equal opportunity irrespective of union membership... We have pay equity for men and women for jobs we assume are of equal weight, but we don't have a highly analytical job evaluation scheme at managerial levels... We use salary sacrifice options to reduce income tax, but the company does not go out of its way to be clever because the law may change... Legislation on shares is an influence... There are a couple of share schemes... The first issue came in the 1988 crash. Employees bought a lot of shares and sold at a profit... But it depends on the way people understand the options... The business units in [Metalco] vary in the amount of share ownership.

By comparison, the corporate Remuneration Manager said of other areas of law:

> Legislation on superannuation clearly is an influence...Also if we change to individual contracts, we'll have to change people from award 'super' to the [Metalco] Employees' Fund....FBT is a big thing for us.. There was a real issue in WA [Western Australia] with remote locations... Company housing was subject to FBT... The company tried to get the government to relieve this.... Therefore, it was a big thing... Salary sacrifice might be used to provide benefits.... One view is that we cash out all benefits and leave it to them to choose, as opposed to a philosophy of the company providing more and more.... Our philosophy is more towards individualism rather than paternalism.

The Employee Relations Manager of the Metalco Processing Company agreed that the difference between personal income tax and FBT affected salary packaging, but the company watched what its competitors were offering. It observed the trend of the labour markets. Share ownership had been important to the MNE Metalco group and employees participated in the Metalco share schemes. While salary packaging had became less cost effective through FBT, general salaries were still performance-driven at work places. The social security system in Australia was not an influence or constraint on the compensation system, but the legislation on superannuation certainly was. Metalco had to observe the legislation on this as far as company contributions were concerned.

In relation to the effect of the economy on pay design, the view of the two corporate managers interviewed was that the company was competing in world markets, so the growth rates in Japan and the United States were very important. The Australian exchange rate and commodity prices affected Metalco in the international markets. They were therefore concerned about government policy and the tight inflationary policy. While these factors did not directly influence pay design, the need for extra productivity and maximising use of technology could be reflected in compensation decisions. As the Corporate Employee Relations Manager put it:

> We operate in world markets...The cost curve is very important...You must improve 3 per cent a year on costs to stay still in world markets.

Pay levels in the macro Australian economy affected the level of pay in the higher positions (above stratum 2) of the Metalco strata system. According to the Corporate Remuneration Manager,

> The economic adjustment is decided by [corporate] head office...We lay out the strata boundaries... They are decided by the Board and based on average weekly earnings, global movements we pick up from the Canberra Conference, perceived pay patterns in other companies and our capacity to pay...

The local economy also had a direct effect on the Metalco Australia plant if not directly on pay design. The Metalco Australia Employee Relations Manager continued:

> We are the largest employers in the state so we therefore have a disproportionate influence on the state government... We have lively debates with the government about renewing investment here... But it all hinges on the price of power... We use a third of the hydro power output of the state... With this as part of our costs, we do not pay less than the award, but there has been systematic attack on extras that have built up over time, such as abuse of overtime...We have gone through an early retirement program, and high levels of unemployment mean that you can be selective with recruiting people.

On the effects of national culture on Metalco Australia compensation, the Corporate Remuneration Manager said:

> Australian culture has a greater commitment to equality than the American culture... The gap between the shopfloor and CEO [pay] might be 1:20 here, but possibly 1:85 over there... The difference between shopfloor and CEO is therefore very steep in the US, and very flat here... It's consistent with the Australian heritage and antagonism...convicts...police...It may affect values... It also shows up with Australian views on free enterprise... Australians are naive on this...It's the norm in the USA...Americans are used to wide divergence...of wages and pay. It's not just the industrial staff; at the Canberra Conference [where the mining industry representatives share salary trend information], comparable worth is the driving concept at those gatherings...

On Australian team culture, she continued:

> We don't have natural work teams, but there are shift crews in the Pot Room. When something goes wrong...when something drops into the pot...then the guys work together. When things are quiet, they are more individualistic... Because of the Pot Room danger, there is a macho culture. In the carbon/anode production department and metal casing house, work is individually done, but they are moving towards a team-based organisation.

Table 10.6 shows the extent to which the Hodgetts and Luthans (1993b) recommendations for 'appropriate' pay systems for Hofstede's (1980) cultural dimensions of Australia are reflected in the Metalco Australia compensation systems. Table 10.6 indicates that only about half the recommendations listed in all four employee categories of Metalco Australia were supported. The award structures for the industrial and clerical staff did not have large salary gaps between lowest and highest paid, which would be appropriate for moderately low Power Distance in Australia. The relativities of the old industrial staff award with 62 pay points were fairly narrow. The gap between the lowest paid operator in 1988 (A$338.90 per week) and the best paid tradesperson (Electrician-Special Class) (A$405.40 per week) was only A$60.50 per week.

In considering the clerical staff, a similar pattern emerged. The original grade structure showed a 1992 salary of A$17,777 per annum at the lowest level to A$23,778 at the top. The salaries of top management were unknown, so it was not possible to establish the gap between highest and lowest paid in the plant, but employee benefits differed for management and Metalco did not use gain-sharing or profit-sharing. The correlation with the recommendations for high Individualism was strong in one respect, as the company placed emphasis on individual pay-for-performance, reviewed on an annual basis. But the reliance on the AIRC NWC wage increases only for industrial and clerical employees suggested the alignment with the local labour market rates was not paramount. Metalco Australia had few additional family-friendly employee benefits, although it did practise equal pay principles. For a moderately weak Uncertainty Avoidance dimension found by Hofstede (1980), Hodgetts and Luthans (1993b) recommend an emphasis on performance and a sharing of risks. The plant followed the former recommendation, but not the latter one. The compensation for the four industrial, clerical, administrative/technical, and managerial groups was thus only marginally supportive of all the recommendations for the Australian national culture.

Table 10.6

The Hodgetts and Luthans (H&L) Recommendations for Compensation for Australia as Reflected in Metalco Australia as at 1993

Australia		**Metalco Australia**			
Hofstede Dimension Index	**H&L Recommended Compensation**	**Industrial Staff Compensation**	**Clerical Staff Compensation**	**Administrative and Technical Compensation**	**Managerial Compensation**
1. Moderately low Power Distance	• Low salary gaps between lowest and highest paid	Yes - in award [1]	Yes - in award [1]	Pay unknown	Pay unknown
	• Low benefits gaps	Yes - in award [1]	Yes - in award [1]	No	No
	• Gain-sharing	No	No	No	No
	• Profit-sharing	No	No	No	No
2. High Individualism	• Individual performance-based	Partly through merit pay	Yes	Yes	Yes
	• External equity/competitiveness	No – NWC increases only	No	Yes	Yes
	• Emphasis on short-term achievements	Yes – performance review	Yes	Yes	Yes
3. Moderately high Masculinity	• Few family benefits	Yes	Yes	Yes	Yes
	• Gender pay differences	No	No	No	No
4. Moderately weak Uncertainty Avoidance	• Emphasis on performance	Yes	Yes	Yes	Yes
	• Sharing of risks associated with MNE's success or failure	No	No	No	No
	• Competitive salaries to avoid poaching of staff	No	No	Yes	Yes
	• Decentralised pay policies	Yes[2]	No[3]	No[4]	No[4]
	Supported Y (Yes) Not Supported N (No)	Y = 6 N = 6 Partly Y= 1	Y = 6 N = 7	Y = 6 N = 6 Unknown=1	Y = 6 N = 6 Unknown=1

Note:(1) No details were available about the gap between award and managerial staff. (2) Taken to mean decentralised to the plant (3) Paid under an award which applied to the whole processing company (4) Centralised strata compensation system for the whole MNE

While national culture might have had only modest influence on the design of the compensation system, one major factor dominating the design process was the impact of the industrial relation systems and the union presence on the site. MNE Metalco managers observed that the company preferred legislation that allowed employees the right not to join unions and the negotiation of individual contracts. The Accord between the Labor Government and the ACTU had been seen as an impedient to their HRM strategy, but they did not use this as an excuse not to reform work practices and pay systems. Clearly the Metalco Australia HRM strategy had brought confrontation with the unions to a head. The Corporate Remuneration Manager stated:

> Union structures on the site are an irritation... When we are negotiating changes to awards and restructuring, the craft unions tend to stand aside from the operating unions. The craft unions were against the restructuring package. [Metalco's] attitude is that trade unions and industrial tribunals are third parties. We therefore try to minimise the impact of the third party between employer and employee

The union density in the plant was thus 'an influence' as it set the tone for union and shopfloor attitudes towards terms and conditions. Relations at the collective level had not been as effective as the company would have liked. There had been some gains, but the elimination of overtime and changing behaviour which maximised overtime had been hardest in the Pot Room. Direct relations with employees on an individual level were good.

Metalco Australia used the award system and recognised unions as part of its earlier HRM strategy, and therefore had to operate under the conditions and rules of the AIRC. Although it had operated a plant agreement with the industrial employees for many years and had used the metal processing award for the clerical staff, the desired move to individual contracts created the problem of deciding how this strategy could be accommodated within the legislation and practice of the AIRC. The award pay levels were closely linked to AIRC NWC increases, and changes in award structures had to be approved by the AIRC. The Metalco philosophy had always been that employee relations arrangements should reflect the needs of employees and management at a particular work site, rather than following national or industry-wide standards, and that minimum award standards could be exceeded at an enterprise if work practices permitted greater efficiency. The Employee Relations Manager of the Metalco Australia site expanded on the influence of the external industrial system:

> We have had individual site awards from the 1970s, about the same time as the vehicle industry...We got indexation in 1975 so the development of company awards as an autonomous basis for workplace was constrained... Then we got the Accord, but the framework for an enterprise agreement [EA] was there. From 1986-87, the autonomy to use EAs was more available as central constraints went to allow EAs. Therefore, Metalco was well placed to take advantage of this...Geography helped the enterprise focus...We had to be self-sufficient...Even under centralised wage negotiations, we have done enterprise agreements...We've had our own award since the late 1960s...The framework constrained this till the second half of the 1980s. Our award at [Metalco Australia] was not all that different from the federal awards...There were large numbers of classifications...We hadn't been through restructuring like now.

Finally, the characteristics of the industry in which Metalco Australia was operating had an influence on the HRM/IR strategy in the plant. Its products competed on world markets and were sensitive to world metal prices. This put greater emphasis on costs and pay systems under the subsidiary's direct control that permitted flexible use of labour. Internal factors such as the technology determined the skill composition and thus the type of pay systems. The size of the plant also necessitated formal shop-floor agreements and structures permitted through the industrial relations system. To become more competitive, however, the nature of the industry needed accompanying heavy capital investment. As the Plant Employee Relations Manager put it:

> The pressure for change at the end of the day is competitiveness and contribution to shareholder wealth...The plant was built in the 50s...We are outdated...The focus is whether we can still make money and are worth redevelopment.

Metalco Singapore

Company Background of Metalco Singapore

Metalco Singapore was formed in 1982 as a result of a merger of an engineering and manufacturing company, and became a wholly owned subsidiary of a regional Asian holding company (with head office in Singapore) in 1986 which was, in turn, wholly owned by the corporate MNE Metalco. Metalco Singapore operated as a separate business unit of the MNE and was bought in 1986 and sold in April 1993. The study of its compensation system is up to the time of sale.

The Metalco Singapore factory was situated on the western side of the island and was controlled by the board of the Asian holding company. The head of the Metalco

Singapore plant was a British expatriate General Manager who reported to the Managing Director of the Asian company. The company provided a diverse range of technical support services and designed and manufactured products for the protection of metals in different environments. As well as the production function, the company had in-house quality assurance facilities and laboratories. It marketed its products in a geographical spread from Pakistan to New Zealand. The customers were oil and gas producers, marine transporters and contractors. The products were used in oil refineries, power stations, in off-shore or below ground facilities, ships and anywhere else where corrosion might occur. Metalco Singapore only had one site in Singapore and had several competitors on the island. The company had sales representatives in Thailand, Malaysia and Indonesia.

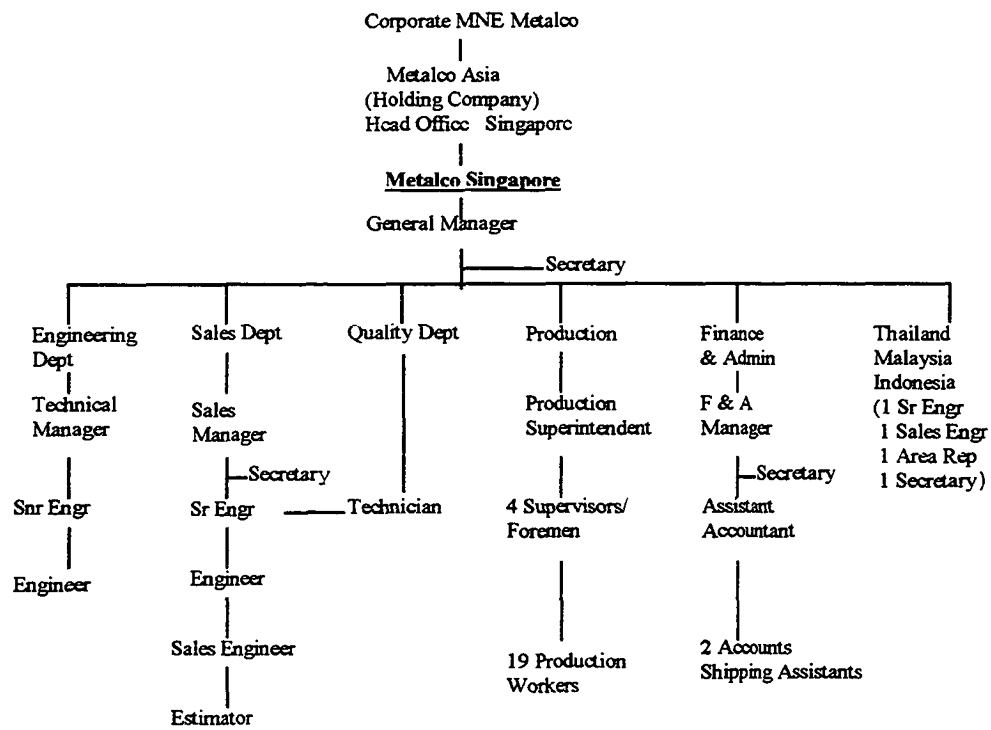
Organisation of Metalco Singapore

In 1993, Metalco Singapore employed 45 staff. Apart from the (British expatriate) General Manager, there were 4 other managers, 3 engineers and technicians, 7 administrative/clerical staff, 4 production/maintenance supervisors, 19 production workers and 7 sales employees of whom 3 were based in Thailand, Korea and Indonesia. The subsidiary employed 2 other expatriates — one Welsh and the other Scottish. The organisation chart is shown in Figure 10.2. From Figure 10.2, it can be noted that the biggest department was the production function headed by a Production Superintendent. Beneath him were the four foremen/supervisors and 19 production workers (consisting of 4 tradespeople and 15 unskilled). The other main departments were engineering, sales and finance and administration.

Production Technology of Metalco Singapore

Metalco Singapore offered engineering services and a range of cathodic protection products. After inspecting a client's corrosion problem, quotations were given, a design drawn up, protective equipment manufactured and installed and subsequently inspected. The products used consisted of zinc, aluminium and magnesium protectors that were tailor-made according to the method of application of the cathodic protection, the electricity power supply, and the project to be protected such as above or below ground pipes. The work centred around the use of a foundry that required a predominantly unskilled workforce.

Figure 10.2
Organisation Chart for Metalco Singapore as at 1993



Mission and Objectives of Metalco Singapore

The Asian holding company did not intervene in the operations of Metalco Singapore to a great extent as the holding firm was mainly a trading concern. The main objectives of the Metalco subsidiary were growth, cutting costs to be competitive and improving quality. Metalco was going through a change programme in the early 1990s to implement the ISO 9000 series of quality standards which it achieved by the end of 1992. The plant competed on price, quality and service, the emphasis depending on which sector of the market it was trading in.

HRM/IR Organisation of Metalco Singapore

Metalco Singapore had some written HRM policies on hours of work and allowances which were an extension of conditions of the Asian holding company. The implied policy, according to the General Manager, was that:

> We look after our people and by Singaporean standards, we have good conditions. Because of the tight labour market, we have to do things to keep staff. We have to use things other than money, such as the quality of life ... [and] keeping the foundry clean.

The holding company based in Singapore 'participated' with Metalco Singapore rather than being 'intrusive' in HRM and the Finance and Administration Manager looked after employee relations, labour costs, training and the payroll functions. HRM procedures were developed by the General Manager in conjunction with the holding company's Managing Director (MD). The management team at the Metalco plant also has some input into the HRM policies and compensation system. The General Manager then made recommendations to the MD of the Asian holding company. The General Manager stated that he would have liked Metalco Singapore to follow the Metalco Australia culture and be seen as a 'blue chip company'. They did not promote themselves as a 'cheap organisation', preferring to be seen as an employer with a strong social responsibility. Metalco therefore paid medical benefits to employees and their families.

In the company, the office staff were mainly Singaporean Chinese. Ages ranged from the mid-20s to 50 years. In the foundry, ages ranged from mid-30s to more than 50 years, and the nationalities were 50 per cent Singaporean Chinese, 30 per cent Malay and 20 per cent Indian. Over half of the employees had worked for Metalco Singapore for more than five years by 1993, and four had more than 10 years' service. The remainder had been appointed as the company grew, and turnover was low. The retirement age was 55 years (prior to new legislation raising it to 60).

Labour costs were about 10 per cent of total operating costs, as materials were the most expensive component of production. In 1992, overtime comprised of 17 per cent of the salary bill in the foundry. Overtime was controlled by the plant management, but at that time, it was seeking as many labour hours as possible. The subsidiary was not a member of an employer association, and tended to look at similar industries in Singapore to compare its compensation levels. The company was not unionised, as there had been no demand from the employees for union representation. Grievances were processed by the supervisors.

Industrial Staff Compensation in Metalco Singapore

Compared with Metalco Australia, the Metalco Singapore company was less than a tenth of its size. Its smallness was reflected in the informal compensation systems which operated, and the emphasis on individual contracts. The pay system for foundry and trades employees at Metalco Singapore had four components. The first was an annual length of service increment for each year of service for the first five years. New employees would be paid a 'market rate' depending on the job and annual increments were set down in an informal matrix. Secondly, the base rates for everyone were reviewed annually with 'the market rate' being the guide. The NWC guidelines were normally followed closely except that in 1991, the company did not use the guidelines and made bigger adjustments to salary levels because levels had become 'out of step'. The third component of compensation was the '13th month' Annual Wage Supplement (AWS) which the company paid in December each year. The final component was a flexible January bonus which was paid to everyone in the company except the expatriate General Manager, and consisted of a share of the profits according to salary.

The foundry workers were paid monthly. The company voluntarily shared that in November 1992, the basic salary was S$700 to S$800 per month. Foundry supervisors received S$1450 to S$1800 per month. The trades staff were paid S$859 to S$1250 per month. All industrial employees received the same bonus. There were no individual incentives or performance appraisal. The package included a shift allowance which varied according to shift, a transport allowance, and a meal allowance. Free uniforms were issued and overtime was paid. Taxis home were provided for employees on the night shift. The obtaining of additional educational or technical qualifications would not affect pay, but could facilitate a career move. Metalco would financially assist studies provided they were relevant and could be used by the company. The foundry employees worked a 44 hour week on 3 shifts, the first from 7 am to 4 pm, the second from 4 pm to12 midnight, and the third from midnight to 7 am.

The main basis of the compensation system was payment for the job (not skill or age), and increments for length of service of up to 5 years. The general level of pay was reviewed annually, and a 13th month bonus and profit-share bonus given. Industrial employees' pay was kept confidential, but was probably disclosed to each other informally.

Clerical and Administrative Compensation in Metalco Singapore

The clerical and administrative employees at Metalco Singapore were paid on an individually negotiated basis with the market level and size of the job being the main criteria. The package was based on three elements: a base salary reviewed annually (with the lower paid also receiving overtime pay), the 13th month (AWS), and a share of the profits according to salary. Working hours were 44 per week. No length of service increments or meal allowances were offered. A daily transport allowance was given, as car ownership is restricted in Singapore. The staff were paid monthly and commenced with 14 days' holiday, rising to 20 days with length of service. The size of the job and market levels were thus the main determinants of the system with the General Manager noting that Metalco had to pay more than the market rate to attract staff to the company because of its small size and location. A secretary in 1992 earned about S$2,500 per month, although the final salary might depend on the labour market for particular skills. The pay was for the job, irrespective of educational qualifications attained. There was no formal performance appraisal system.

Sales and Technical Compensation in Metalco Singapore

The sales and technical employees were generally graduates, but in the tight labour market, Metalco Singapore found it difficult to find and retain graduates with experience at the compensation level it wished to pay. The compensation package usually consisted of a base salary reviewed annually, the 13th month (AWS) and a share of the profits. No meal or transport allowance was paid, but employees could claim reimbursement for business travel costs. There was no formal performance appraisal system.

Managerial Compensation in Metalco Singapore

The expatriate managers were paid on home-based and host-based country international compensation packages. The General Manager of Metalco Singapore (originally a British expatriate) was transferred to an Australian home-based package in 1987, and to the Metalco Australian Stratum 4 salary and benefits, plus allowances for local conditions and local labour market levels. Some of these allowances were approved by the MD of the Asian holding company in Singapore. In brief, an expatriate balance sheet approach was used for him. The other two expatriates were on host-based packages of Singaporean local salaries which were negotiated with fixed term contracts set by Metalco Singapore, plus international supplements.

The other local managers' pay and conditions were individually negotiated, with a package consisting of a base rate, the AWS (13th month) and a share of the profits. Although individually negotiated, the General Manager stated that the final salary had to 'fit in with other salaries to preserve relativities'. Increases in the base rate depended on performance and the market level necessary to retain them. No choice of package was given, and the performance appraisal was done informally by the General Manager. The varying experience of the five managers resulted in a wide range of salaries and so were kept confidential to the individual. The basis of their pay was thus the value of the job, individual skills, and individual negotiation of market worth.

The annual profit bonus for all employees (expressed in months of salary) was introduced in the late 1980s. The General Manager spoke of the problems this bonus created when the company was not making money, and the bonus was reduced accordingly. All employees also had the option of purchasing shares in Metalco Australia, a scheme that was introduced in 1987. About five employees participated, one of whom was on the shop floor. The lack of interest was attributed to the cultural preference for short-term gains.

Employee Benefits in Metalco Singapore

Some of the employee benefits for Metalco Singapore staff have already been referred to. The common benefits for all levels of employee included:

- Annual dinner and dance
- Annual leave
- Compassionate leave
- Education assistance (from Skills Development Fund)
- Free medical treatment/medicine for employee and family
- Hospital ward benefit for employee and family
- Long-term illness
- Maternity leave
- Retrenchment benefit
- Sick leave
- Specialist surgical fees for employee and family.

Uniforms, shift allowance, meal allowance, acting allowances, and a festive loan advance were provided for the industrial employees. Daily transport allowances were given to the industrial and clerical employees. Sales, technical and managerial staff had free life insurance and were provided with cars or reimbursed for the use of their own cars on company business. Business entertainment expenses were available to sales, technical and managerial employees. Telephone installation costs and calls were reimbursed for managers. The corporate Metalco MNE in Australia employee share option scheme, as was noted earlier, was only taken up in a minor way. The Metalco Singapore employee benefits profile as at 1993 is shown in Table 11.7 below.

Relationship of Metalco Singapore to Corporate Head Office

As mentioned above, the Managing Director of the Asian holding company which owned Metalco Singapore had some involvement in general HRM policy. Hiring of all staff and senior staff salaries had to be approved by him, based on proposals from the subsidiary. The annual profit-share bonus also had to be approved by the Managing Director. The Metalco Singapore General Manager would have a review meeting with the Managing Director and agree on the salary levels for the plant. The company aimed for a general compensation level in the upper half of the labour market. The only influence of the head office of the corporate Metalco MNE in Australia on the Singapore affiliate's compensation was through the salary package of the General Manager himself. His package benefits and salary grade were determined by the MNE. Some local allowances were agreed with the MD of the holding company in the Stratum 4 range.

The Profile of Metalco Singapore Compensation

The Gomez-Mejia and Balkin (1992) Algorithmic and Experiential profiles for compensation of four occupational groups for Metalco Singapore were shown in Tables 10.2 to 10.5. The **industrial** staff (Table 10.2) were mainly paid on job and length of service. There was no formal performance appraisal, but there was some pay at risk depending on the subsidiary's performance. While the compensation system had several Experiential components, the general profile of industrial staff compensation was closer to an Algorithmic profile.

Table 10.7
Employee Benefits Profile for Metalco Singapore as at 1993

	Industrial/ Blue Collar Unskilled	Industrial/ Blue Collar Skilled	Clerical/ Admin	Sales/ Technical	Professional/ Management	Board
Acting allowance	✓	✓				
Annual leave	✓	✓	✓	✓	✓	
Attendance allowance						
Business entertainment expenses				✓	✓	
Cellular phones						
Co-operative shares						
Compassionate leave	✓	✓	✓	✓	✓	
Dental treatment						
Early retirement schemes						
External/social recreational club membership						
Festive loan/advance	✓	✓				
Fixed monthly transport allowance						
Free medical treatment/medicine	✓	✓	✓	✓	✓	
Funeral leave benefit						
Hospital ward benefit	✓	✓	✓	✓	✓	
Housing loan						
Housing renovation loan						
Laundry benefit						
Life insurance			✓	✓		
Long service award						
Long-term illness	✓	✓	✓	✓	✓	
Machine allowance						
Marriage leave						
Maternity leave	✓	✓	✓	✓	✓	
Meal allowance	✓	✓				
Medically board-out benefit						
Other loans						
Paternity leave						
Provision of car				✓	✓	
Reimbursement for use of own car on company business			✓	✓	✓	
Retirement benefit (>CPF) [Singapore]						
Retrenchment benefit	✓	✓	✓	✓	✓	
Service benefit						
Shift allowance	✓	✓				
Sick leave	✓	✓	✓	✓	✓	
Specialist surgical fee	✓	✓	✓	✓	✓	
Study leave/benefit						
Transport benefit/allowance/ reimbursement	✓	✓	✓			
Uniform	✓	✓				
Union day leave						
Union education leave						
Unpaid leave						
Voluntary resignation benefit						

The components for the **clerical, administrative, sales, and technical** employees (Tables 10.3 and 10.4) were very similar, with an individually negotiated salary, the Annual Wage Supplement (13th month), and company bonus. The basis of pay was thus the job. Seniority did not play a formal role in pay, but compensation would rise over time with length of service. The profit bonus was dependent on the business unit success, although this was an annual payment rather being than long-term. The compensation for these occupations was also weighted towards an Algorithmic rather than an Experiential profile.

The profile for the **management** employees (Table 10.5) reflected a stronger individual performance element. There was an informal performance appraisal scheme. The risk was possible loss of profit-share, and the compensation was very market-driven. The rises were annual, and the whole system was flexible. The general profile was an almost even balance of Algorithmic and Experiential factors.

Metalco Singapore and the External Environment

Referring to the research question on the influence of the external environment on the compensation at Metalco Singapore, the General Manager did not perceive the legislation as having a major influence on pay system designs. The various clauses of the Employment Act had to be observed, and the company paid the CPF like everyone else. He continued:

> We have not had any legal issue in the employment of people. The CPF rate varies, but we pay it...If the environment changes, we would look at it and see if we need to adapt. The Singaporean income tax levels are very low, especially for the average production employee who may be earning about $12,000 a year...We are more affected by the health legislation and strict environmental controls on effluent and things like that.

Although the level of taxation thus had not been a big factor in pay and benefits design, the tightness of the economy, however, had been important in setting general and individual levels of pay. The General Manager observed that:

> Singapore has a very tight labour market...Therefore we have to do things to keep people...The foundry has to be kept clean...We have to use things other than money...quality of life things...We are looking at non-cash attractions. Economic growth affects the Ministry of Labour and the issue of foreign workers...The levy may have an impact on the sort of people you can employ. There is a monthly levy...[Metalco Singapore] has 12 [foreign employees] in this category in the foundry...on the shop floor...Singaporeans don't like to work in dirty industries.

The company was non-union, but it did carefully note the decisions of the National Wages Council and the rises awarded to the Singaporean Civil Service. Metalco had introduced the profit bonus to give more flexibility in line with the NWC, and used capacity to pay as a factor in rises, rather than automatically passing on the increases given by the government to its Civil Service.

With regard to the Singaporean work culture, the General Manager perceived that:

> There is an expectation that I will be authoritarian...This may be a function of the education system and Confucianism...People are educated, but they are not used to making decisions...Perhaps it's the political culture as well...Therefore, I make more independent decisions and get sucked into work which could be done by my subordinates...I think individual incentives would be difficult to install here because people are aware of what each other gets, so individual salaries would become even more visible.

The other reason for delaying this idea was that a backward-sloping labour supply curve might apply when people judged that they had earned enough for that month and then go absent from work. The General Manager elaborated that:

> Comparing the UK on starting up here, productivity was low, but wages were low as well. Therefore, we tried to introduce incentives, but the Malays did not turn up on the last day. They had earned enough...They had enough TVs and the family was catered for...Therefore, individual incentives may be problematic...Over time this may change, of course. However, the work ethic is strong, and money is highly valued — perhaps more than the quality of life. Money is the most important thing here. The bonus is viewed very seriously but with a flexible system, you can keep the base pay low, and pay more when possible...The work ethic is strong, but this may be a myth...It may be a response to authoritarianism...If you leave people alone, performance may decrease.

The Metalco Singapore compensation compared to the Hodgetts and Luthans (1993b) recommendations for pay systems for Singapore culture, derived from the Hofstede (1980) dimensions, is provided in Table 10.8 below. Like the profile for Metalco Australia, there was no perfect agreement with the Hogetts and Luthans (1993b) recommendations. The best 'fit' was with the compensation of the industrial staff, with lesser conformity from the clerical/administrative, sales/technical, and managerial occupations. The initial increments for length of service for the operating and trades personnel might have reflected the high Power Distance culture initially (Hofstede, 1980), as might the difference in employee benefits between industrial employees and the management. Apart from this, no data were available to compare the salary gap between lowest and highest paid across the plant. The lack of individual incentives for the industrial staff and the same profit-sharing component were appropriate for the low Individualism in Singapore, as suggested by Hofstede

Table 10.8

The Hodgetts and Luthans (H&L) Recommendations for Compensation in Singapore as reflected in Metalco Singapore as at 1993

Singapore		**Metalco Singapore**			
Hofstede Dimension Index	**H&L Recommended Compensation**	**Industrial Staff Compensation**	**Clerical & Admin Staff Compensation**	**Sales and Technical Compensation**	**Managerial Compensation**
1. High Power Distance	• Hierarchical compensation strategy	Yes - first 5 years	No	No	No
	• Pay and benefits tied to place in structure	Yes for pay and benefits	Informal hierarchy for pay. Benefits hierarchy	Informal hierarchy for pay. Benefits hierarchy	Informal hierarchy for pay and unique benefits
	• Large salary gaps between lowest and highest paid	Unknown	Unknown	Unknown	Unknown
2. Low Individualism	• Group compensation plans	Yes - profit share	Yes - profit share	Yes - profit share	Yes - profit share
	• Seniority based pay	Yes – first 5 years only	No	No	No
3. Moderately low Masculinity	• Many family benefits	No	No	No	No
	• Quality of worklife emphasis	Partly	Partly	Partly	Partly
	• No gender pay differences	Yes	Yes	Yes	Yes
4. Weak Uncertainty Avoidance	• Emphasis on performance	No – not formally	No – not formally	No – not formally	Yes
	• Sharing of risks associated with MNE's success or failure	Yes - profit share	Yes - profit share	Yes - profit share	Yes - profit share
	• Competitive salaries to avoid poaching of staff	Yes	Yes	Yes	Yes
	• Decentralised pay policies	No (1)	No(1)	No(1)	No(1)
	Supported Y (Yes) Not Supported N (No)	Y = 7 Unknown = 1 N = 3 Partly = 1	Y = 5 Unknown = 1 N = 5 Partly = 1	Y = 5 Unknown = 1 N = 5 Partly = 1	Y = 6 Unknown = 1 N = 4 Partly = 1

Notes: (1) Taken to mean decentralisation within Metalco Singapore, but pay policies were decentralised to the subsidiary in the context of the whole MNE

(1980). With Hofstede's weak Uncertainty Avoidance factor for Singapore, Hodgetts and Luthans (1993b) recommended that local employees should share some of the risks associated with the company's success or failure. This occurred in Metalco Singapore, where the industrial employees' bonus depended on the annual profits of the affiliate.

As discussed earlier, the clerical, technical, sales and managerial staff salaries were individually negotiated. No data on the salary gap between highest and lowest paid were provided, so no comment is possible on this. However, the employee benefits did vary by position, with the senior management having extra benefits. Arguably, the acceptability of this might be explained by Hofstede's (1980) finding of a high Power Distance in Singapore. The dependence of profit-share on the subsidiary's success supported the Hodgetts and Luthans (1993b) recommendations for a weak Uncertainty Avoidance factor, and the group profit-sharing was appropriate for a low Individualism dimension. The subsidiary did not offer high levels of family-friendly benefits, but the General Manager did refer to attempts to improve the quality of worklife, which conforms with suggested practice in a moderately low Masculinity national culture (Hodgetts & Luthans, 1993b).

Metalco Singapore was part of the corrosion control industrial sector and had six competitors in Singapore. The competition had arguably some impact on its pay levels, but not on its compensation design strategy. Internally, the small size of the company enabled it to run an informal system that was directly affected by the tightness of the labour market and employment legislation. The only external corporate MNE Metalco intervention was the salary package of the expatriate GM and the approval necessary for salary levels and profit distribution from the Managing Director of the Asian holding company in Singapore. Thus the corporate head office orientation was ethnocentric for the GM, but polycentric for the compensation design of the remaining staff.

Differences and Similarities in Metalco Australia and Metalco Singapore Compensation

The main differences and similarities of compensation systems in Metalco Australia and Metalco Singapore are summarised in Table 10.9.

Table 10.9
Comparison of Compensation Systems in Metalco Australia and Metalco Singapore as at 1993

Metalco Australia	Metalco Singapore
General Organisational Features	
Large Plant	Small plant
Operator/trades workers dominant (67% of staff)	Production workers less dominant (42% of staff)
Flat structure for size of plant	Moderately flat structure of company
Unions recognised initially	Non-union site
Metal process production	Service and metal unit production
Cost, efficiency and quality goals	Growth, cost, quality and service goals
General Compensation Features	
MNE strata system applies to all	Only GM on a stratum salary
Former site agreement for industrial staff	No site agreements
Industrial Compensation	
Algorithmic (10 A*;5 E*; A/E=1, 2 unknown; 1 not applicable)	Algorithmic (9 A*;4 E*; 1 A/E; 2 unknown; 3 not applicable)
Skill-based	Job-based
No job evaluation	No job evaluation
Low risk	Medium risk
NWC rises and AIRC agreements	NWC noted only. No tribunal involved
No seniority pay	Some seniority pay for first 5 years
Formal performance appraisal	No performance appraisal
No dependence on profits	Some dependence on profits
H&L** recommendations? 6 yes;6 no; 1 Partly Yes	H&L** recommendations? 7 yes;3 no; 1 Partly yes; 1 Unknown.
Clerical Compensation	
Algorithmic (12 A*;3 E*; A/E=1, 2 unknown; 1 not applicable)	Algorithmic (10 A*; 5E*; 1unknown; 3 not applicable)
Job-based in a grade pay band	Job-based and market level fixed point
No job evaluation	No job evaluation
No risk	Bonus and profit-share at risk
NWC and merit rises	Annual rises and bonuses
No seniority pay except for one grade	No seniority pay
Formal performance appraisal	No performance appraisal
No dependence on profits	Some dependence on profits
H&L** recommendation? 6 yes; 7 no	H&L** recommendations? 5 yes; 5 no; 1 Partly yes; 1 Unknown
Administrative and Technical	**Sales and Technical**
Algorithmic (13 A*; 1E*;2 A/E; 2 unknown; 1 not applicable)	Marginally Algorithmic (8 A*; 6 E*; 2 unknown; 3 not applicable)
Job-based salary in strata pay range	Job-based single point
No job evaluation	No job evaluation
Low risk	Bonus and profit-share at risk
Merit and annual strata review rises	Annual bonuses and profit-share

Administrative and Technical	Sales and Technical
No seniority pay	No seniority pay
Formal performance appraisal	No formal performance appraisal
No dependence on profits	Some dependence on profits
H&L** recommendation? 6 yes; 6 no; 1 unknown.	H&L** recommendation? 5 yes;5 no; 1 Partly yes; 1 unknown.
Managerial Compensation* **	
Algorithmic (11 A*;3 A/E*; 3 E*; 2 unknown)	Balance of A/E* (9 A*; 8 E*; 2 unknown)
Job-based in strata pay band	Job-based fixed point
No job evaluation	No job evaluation
Low risk	Bonuses and profit-share at risk
Merit and review of strata rises	Annual bonuses and profit-share
No seniority pay	No seniority pay
Formal performance appraisal	Informal performance appraisal
No dependence on profits	Some dependence on profits
H&L** recommendation? 6 yes; 6 no; 1 Unknown	H&L** recommendation? 6 yes; 4 no; 1 Partly yes; 1 Unknown..

Notes:* A is Algorithmic. E is Experiential. A/E is Algorithmic/Experiential ** H&L is Hodgetts and Luthans (1993b) ***Excludes the Metalco Singapore expatriate General Manager who was on the strata expatriate conditions.

Included in Table 10.9 is the total number of Algorithmic and Experiential features for each of the compensation systems in Metalco Australia and Singapore extracted from Tables 10.2, 10.3, 10.4 and 10.5. To ensure a more overall valid comparison of the Algorithmic (A) and Experiential (E) patterns in the affiliates, the comparison can be restricted to only those *common* compensation features for which data were available and applicable in both subsidiaries. The results are shown in Table 10.10.

Table 10.10
Total of Algorithmic (A) and Experiential (E) Compensation Features for Metalco Australia and Oilco Singapore as at 1993 – Selected Common Features Only

Number of Algorithmic(A)/Experiential(E) Features						
	Metalco Australia			**Metalco Singapore**		
Industrial	8 A	5 E	1 A/E	9 A	4 E	1 A/E
Clerical	10 A	3 E	1 A/E	9 A	5 E	0 A/E
Admin./Tech/Sales	11A	1E	2A/E	8A	6E	0 A/E
Managerial	11 A	3 E	3A/E	9 A	8 E	0 A/E

Restricting the Algorithmic and Experiential classifications only to those selected common features for which data were available and applicable, Table 10.10 indicates predominantly general Algorithmic profiles for the industrial, clerical, administrative, technical, sales and managerial pay systems in Metalco Australia. There were general Algorithmic profiles for industrial and clerical staff in Metalco Singapore, but marginally Algorithmic and balanced Algorithmic and Experiential features for the administrative, technical and sales, and managerial employees respectively. All general profiles for compensation systems for both affiliates given in Table 10.9 are therefore similar to those in Table 10.10 and will be used for further discussion in a later chapter.

In discussing the compensation of both subsidiaries together, to some extent, it could be argued that the external environment had a significant effect on **industrial** employee compensation. Despite the major differences in the internal factors, Metalco Singapore had to observe the provisions of the Employment Act and paid the 13th month (AWS). The decisions of the AIRC NWC and Singaporean NWC also appear to have had a major impact on the design of the pay systems. In the Australian subsidiary, the initial site award was based on the traditional classification system and pay for job. Rises from the AIRC NWC were automatically passed to the operators and trades staff. As the rules of the AIRC changed, Metalco Australia attempted to revise its compensation accordingly. By comparison, the Singaporean affiliate introduced profit-sharing as a result of the flexibility recommendations of the Singaporean NWC.

The state of the Singaporean and Australian economies did not influence the structure of compensation, but did have a direct impact on the general pay levels in Singapore and Australia. In Australia, the influence of the economy was also reflected through the rises awarded by the AIRC, as well as through the annual review of strata levels. Culturally, it was noted that the length of service increments and lack of individual incentives in Singapore could be appropriate for the high Power Distance and low Individualism culture, and that the low salary gaps between highest and lowest paid in the industrial awards of Metalco Australia were suitable for the low Power Distance. In the Australian subsidiary, the emphasis on individual performance reviews suited the high Individualism and moderately weak Uncertainty Avoidance culture, as suggested by Hofstede (1980). Nevertheless, the general impression is that the Singaporean subsidiary followed the traditions of the labour market, whereas Metalco

Australia had to work within the constraints of the union presence in the plant and the formalities that the AIRC brought to pay design.

Some similar arguments about the role of the external environment on **clerical** compensation in the two subsidiaries can be made. With clerical unions recognised on the Australian plant, the metal processing company had negotiated an award that covered all the clerical staff on all its sites. Pay rises were decided by the AIRC NWC. As the AIRC changed the National Wage Principles, the company changed its approach. The Singaporean subsidiary followed the Employment Act, gave the 13th month (AWS) and became more 'flexible' with profit-sharing. Its general rises reflected the quantum of the NWC up to the mid-1980s and then the increases given by government to the Singaporean Civil Service. It was noted that the clerical compensation systems for both Metalco Australia or Singapore did not totally support the Hodgetts and Luthans (1993b) recommendations for the Hofstede (1980) dimensions for the respective countries.

In terms of the impact of the external environment on the compensation systems of the **administrative, sales, technical and managerial** staff in both Metalco Australia and Metalco Singapore, legislation did not have a direct effect on pay design except for the effect of Fringe Benefits Tax (FBT) and superannuation legislation in the Australian plant. In Singapore, the senior staff should have been rewarded on conditions at least as high as those of the Employment Act (although this technically did not apply to them) to preserve relativities. The 13th month (AWS) bonus was given to all staff. Both companies took measures to ensure that their salaries were externally competitive, but the state of the economy did not affect the design of the pay structure. The amount of the profit-share in Singapore might have been affected by the success of the company, which indirectly depended on the state of the Asian economies.

In Metalco Singapore, the decisions of the NWC did have an influence on the general review of pay levels and the increased flexibility of the system. In Metalco Australia, the AIRC NWC decisions had no direct significance on the design of senior employee compensation. As the employees were not unionised, the industrial tribunals had no influence on the system. Culturally, we noted before that for the administrative, sales, technical and managerial staff in both Metalco Australia and Metalco Singapore, the support for the Hodgetts and Luthans (1993b) pay propositions was inconclusive.

The main conclusion on the administrative, technical, sales and managerial compensation of the two subsidiaries is that size and external environment were major determining influences on the general compensation system. Metalco Australia did not have any choice but to participate in the corporate MNE Metalco system, and while there was some local adaptation at lower levels of the strata, pay ranges were determined centrally. The form of performance appraisal and progression through the range was a plant management decision. By comparison, Metalco Singapore had more freedom to negotiate individual contracts, but observed the need to pay the 13th month (AWS), and was encouraged to introduce the profit-sharing element in line with Singaporean practice.

Moving to the similarities and differences of **employee benefits** in Metalco Australia and Metalco Singapore, Table 10.11 shows the comparison of the two subsidiaries. The legislation of both countries had an effect on the range of benefits, with the major difference being in health cover. Being larger, one would have expected that Metalco Australia would have a wider range of benefits, many of which (for the clerical, operative and trades employees) were originally included in their awards. The FBT affected the Australian affiliate at more senior levels in that the cost of benefits were included in the cost of a manager's package. Apart from this, both subsidiaries gave their managers additional benefits in the form of cars and business expenses. Metalco Singapore would have had to meet any requirements of the CPF and Employment Act, but apart from this, could determine its own benefits. By contrast, the general level of benefits in federal AIRC awards would have set a floor for the MNE Metalco Australia benefits. The corporate MNE Metalco, and the metal processing company of which the plant studied was a part, also appeared to have some influence in standardising the level of benefits for executives.

Finally, we noted that the role of the corporate MNE head office was different for each subsidiary. The one link was the application of the strata system to the salary

Table 10.11
Common and Unique Benefits in Metalco Australia and Metalco Singapore

Common Employee Benefits for All Staff in both Metalco Subsidiaries*
Compassionate leave
Retrenchment benefit
Annual leave
Maternity leave
Sick leave

Common Benefits in Both Subsidiaries for Certain Staff*
Business entertainment for managers
Cars
Life insurance
Long-term illness
Meal allowance for industrial staff
Shift allowance
Uniforms

Benefits Unique to Each Subsidiary*	
Metalco Australia	**Metalco Singapore**
Adoption leave for clerical staff	Festive loan advance to industrial staff
Funeral leave	Free medical insurance for staff and family
Housing loans for senior staff.	
Long service awards for clerical and above	
Paternity leave for all staff	
Reimbursement for jury service	
Study leave	
Supplement to private health insurance	

Note:*Excludes the expatriate General Manager who was on strata expatriate conditions

and conditions of the General Manager at Metalco Singapore. The small IR staff numbers at the corporate MNE Melbourne head office naturally meant that there was a low level of intervention from head office. However, the setting of the higher strata salaries and some conditions such as superannuation and employee shares was done by corporate MNE head office. The head office of the metal processing company also ensured that there was consistency of conditions within the business unit, and that the context for the review of salaries at Metalco Australia was established. The trend of a large MNE exerting control through world-wide job/pay grades applies, the rationale being the easier mobility of executives between business units and compensation equity.

Conclusion

As Metalco is the fourth case study in the thesis, further reinforcement of previous findings is occurring to assist in the development of an explanatory framework and propositions relating the external environment to the compensation design in MNE subsidiaries. Like all previous cases, Metalco Australia and Metalco Singapore both had more than one compensation system. The research issue then becomes whether the external environment influences the design of each occupational compensation system in the same way. It is obvious that this is not the case and so general comments about the influence of the environment are unlikely to be an adequate explanation. The impact of the industrial relations system on the unionised and non-unionised workforces in Metalco Australia provides a simple example. The need for a subsidiary to operate in a range of occupational labour markets, each with different features, is another. The second finding that is common in all of the cases except Oilco is that the pattern of occupational compensation systems, categorised by whether they are Algorithmic or Experiential, may vary *within* a subsidiary; this was the case in Metalco Singapore. The reason for this may be due to internal or external environmental factors, or both.

The Gomez-Mejia and Balkin (1992) Algorithmic and Experiential compensation patterns for each subsidiary studied so far also show that the compensation profile for each occupation may vary *between* affiliates of the same MNE, as was the case for the Metalco MNE. This would suggest that a MNE may operate with a variety of pay systems that are not identical to those used in the home country. Again, the reason for this may be due to internal or external factors in the affiliates. Any similarity between the occupational compensation systems in the affiliates in one country might then suggest that the external environment is more significant than internal factors in pay design, or that there may be one type of compensation that is more effective for a particular occupation. Thus the unit of analysis (basis of pay) for operators/industrial and managerial staff in all four Australian subsidiaries (including Metalco Australia) has been Experiential. However, while the unit of analysis for managerial pay has been Algorithmic for managerial employees in all the Singaporean affiliates so far, the patterns in the other occupations are more diverse.

One of the significant internal factors emerging from all the cases is the international orientation and preference for standardisation of the MNE head office towards compensation design. This has varied in the cases discussed so far, but is most evident in the compensation of PCN and TCN expatriates and HCN managers. In Metalco Singapore, the General Manager's position was assessed as a head office stratum level. For non-expatriate and non-managerial home country employees, all MNE head offices so far have adopted a polycentric orientation toward compensation design. Apart from an MNE head office role in pay, in three of the four cases, the regional office has played a function in providing approval of, or advice on, compensation structures, increases or bonuses. The regional office therefore needs including in a complete explanatory framework.

With regard to the four research questions posed at the beginning of the thesis, the Metalco interviews suggested that employment law consisted of elements that forced compliance and a review of compensation practice. However, where the law or awards expressed minima, then the affiliate had the option of exceeding these. The reason may be labour market pressures or attempts to influence performance. In addition, changes in Australian legislation provided opportunities for all MNEs to develop new pay practices, although, according to their HRM/IR philosophy or overall strategy, the affiliates could attempt to operate outside (or test) the legislative frameworks on occasions with particular compensation systems. Foodco Australia and, more recently, Metalco Australia are examples here. They are also examples of subsidiaries trying to influence the external environment. National government policy on industrial relations is reflected in its industrial legislation, which, in turn, may constrain or provide new opportunities for compensation design, as was evident in all Australian cases. Moreover, if governments only provide basic health cover, the onus for health insurance may be placed on to the employer, as was apparent in the Singaporean cases.

From the cases, it is also evident that the state of the economy may have more effect on the level of compensation than on the structure, although the Metalco case indicated that the labour market (as one feature of the economy) needed to be sub-divided according to occupation when analysing its influence. In Metalco Australia, guidelines for managerial pay levels were set by the MNE head office based on general level of earnings in the economy and competitors' rates, whereas pay for industrial and clerical staff was much more geared to the local labour market, which had high unemployment. In contrast, the Singaporean labour market was tight for all occupations. The role of National Wage Council recommendations and the AIRC NWC recommendations in the Metalco subsidiaries also varied and depended on whether the occupation was unionised or not. In Singapore, the subsidiaries have noted NWC recommendations, but then have had some discretion in the extent of their application. Affiliates with unionised workforces in Australia usually passed on increases from the AIRC. The exception has been Foodco Australia, which had informal site union agreements.

In none of the cases so far have the managers interviewed argued that national culture was the main determinant of compensation design in their subsidiaries. Most comments were on a very general level and did not distinguish between occupations. In the Metalco case, the Australian manager talked of an Australian dislike of big differences between maximum and minimum compensation levels while the Singaporean manager spoke of the motivating effects of incentives. The propositions of Luthans and Hodgetts (1993b) for Australia and Singapore have been tested in each of the four cases. For the Australian affiliates, the results are mixed and only in Buildo Australia were the propositions marginally supported for all three occupations shown. The case findings from the Singaporean units were more supportive of the propositions across most occupations. This result might suggest that managers take more note of the national cultural factors in compensation decisions in Singapore.

In Metalco Australia, we noted the strong influence of the Australian industrial relations system on compensation design of the unionised workforce and how the subsidiary attempted to achieve local control of its pay systems despite the constraints of the industrial relations system. In all other cases so far, the MNE has had to deal with the local industrial relations system thus showing that a subsidiary has to adapt to actions of local unions, tribunals, custom and practice. Nevertheless, management has a certain amount of choice in its industrial practices.

In addition to the four research questions, the characteristics of an industry have also been touched on as an external factor influencing compensation design. With the exception of Foodco Singapore whose semi-processed product was sent to Australia for further processing, all subsidiaries were in very competitive industries. This places pressure on management to design compensation to maximise efficiency and limit labour costs. This was evident in Metalco Australia. The type of MNE has also shown the interlinkages necessary for the affiliates with the rest of the MNE. Compensation linkages have normally been at senior management and expatriate levels only.

We have argued that any adequate explanatory framework will have to include the influence of internal factors as well as external ones on affiliate compensation. Technology of the unit determines the skill profile and so the types of pay systems needed. Larger subsidiaries have had more formal compensation systems, and grading structures have reinforced organisational structures in several of the units. Higher level staff have been subject to performance review with links to compensation; lower level staff have faced assessment procedures for promotion on skill-based pay systems. Thus subsidiary pay systems are integrated with other local HR policies and practices. Other internal variables that might affect the impact of the external environment on compensation are the organisational cultures of the MNEs which may encourage sharing of gains rather than risks, and/or the amount spent on employee benefits. The percentage of labour costs of total operating costs may also affect the pay levels and benefits. With a number of collective agreements made in the case MNEs, one might assume that employee acceptance of the conditions of the agreements is another moderating factor. These preferences may, in turn, be influenced by national cultural features. Also apparent in each of the four cases so far was a combination of integration and differentiation mechanisms in the MNEs for the control of compensation design and level. Autonomy of affiliates was higher for non-managerial pay. The variety of these linkages must be part of any explanation of the impact of the external environment as well.

CHAPTER ELEVEN

THE HIGH TECH COMPANIES

High Tech Australia

Company Background of High Tech Australia

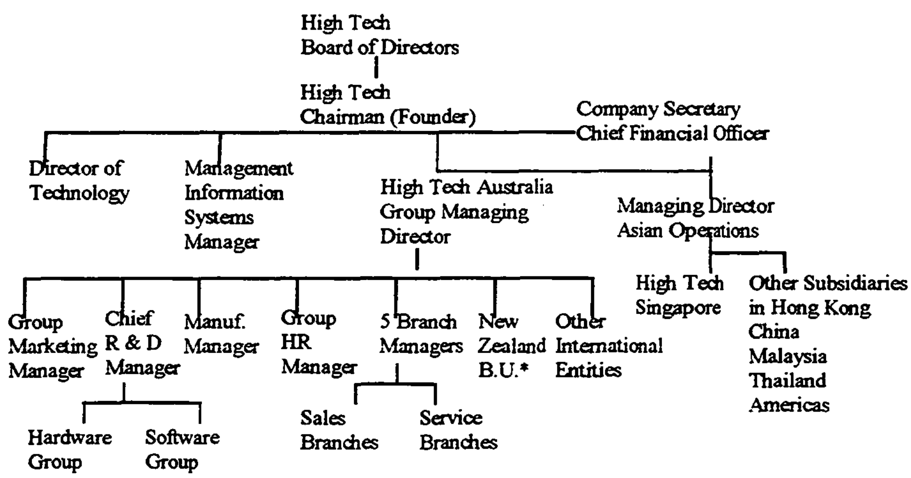
The corporate MNE High Tech Australia with its Melbourne head office was founded by its Executive Chairman and Managing Director (MD) in 1974. It was a specialist designer, manufacturer, and supplier of data communications equipment and services. In 1975, it set up regional headquarters in Hong Kong (responsible for China, Hong Kong and Taiwan) and New Zealand and, by the following year, had achieved sales of A$1m. By 1981, sales were A$10m and the first Australian manufacturing factory was established. The Singapore subsidiary for this study started in 1984 and the Asian Regional Headquarters was transferred from Hong Kong to Singapore in 1994. The Singaporean regional office was located in the main business district and not alongside High Tech Singapore. By 1985 the total MNE's group sales were A$48m. The company went public, and set up a base in Malaysia. A second factory was built near the corporate MNE head office in Melbourne in 1986 and a software development group was commenced. By 1990, the Group had set up a subsidiary to manage its business in China, and by 1991, was exporting into Europe. High Tech sales declined during the late 1980s recession, but the Annual Report of 1995 reported a turnover of A$193.8M and a profit before tax of A$6.6M as at 30 June 1995.

Being a high technology company, it was not surprising that the range of products of the High Tech MNE changed dramatically over time. In 1974, the company sold only modems; in 1992, it concentrated on voice and data solutions, and bigger, more complex and expensive manufacturing and R and D. In Australia, High Tech had 10 per cent of the market share compared with 7 per cent in Asia. The company competed on quality, service and the technical excellence of its products, the latter becoming more important in recent times. Its ability to put large networks together was a special characteristic. Systems integrators were starting to emerge as a 'one-stop shop' where a customer wanted a complete information technology solution — the hardware and the network. High Tech customers in Australia were mainly large corporations, major financial institutions, state and federal government departments and Telstra. Customers in Asia included Telecoms, major computer vendors, airlines, banks, financial institutions and government bodies.

Organisation of High Tech Australia

An extract of the High Tech group organisation chart is shown in Figure 11.1.

Figure 11.1
Extract of High Tech Group Organisation Chart as at 1995



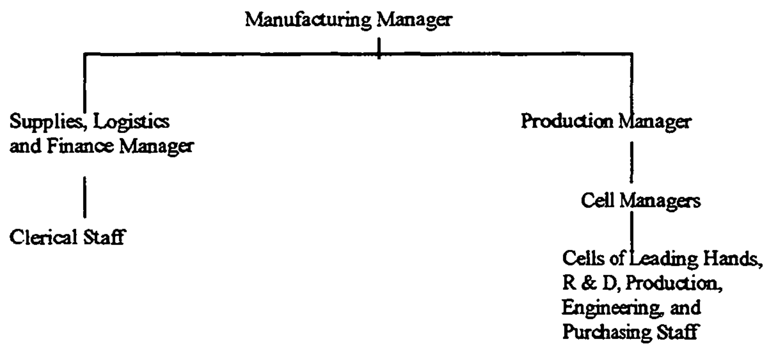
Note:* Business Unit

From an operational aspect, the MNE High Tech corporate Group was divided into four strategic business units (Australia, New Zealand, International Trading Entities and Asia). In turn, these interacted with three strategic resource units (marketing, manufacturing and R and D) and finance and administration. According to the Company Secretary, the finance and administration function in Australia 'had a dotted line to Singapore'. The Group Board had four Executive Directors including the founder/principal shareholder and three non-executive directors. The top management of the Group was comprised of the Chairman/MD, the MD of High Tech Australia, the MD of the Asian operations, the Director of Technology and the Company Secretary/Chief Financial Executive. According to the Company Secretary, 'there [was] no particular philosophy on hierarchy'.

In 1995, there were about 300 staff based in High Tech Australia. There were sales, service and branch offices in five Australian capital cities with staff numbers ranging from 20–40, and R and D and manufacturing centred in Melbourne alongside the head office. Manufacturing employees in the factory declined from 120 to 39 from 1991–95 as a result of TQM and material requirement planning initiatives. The corporate MNE head office had 16 staff as at 1995.

The structure of the manufacturing unit in 1995 in High Tech Australia is illustrated in Figure 11.2.

Figure 11.2
Structure of High Tech Australia Manufacturing Unit as at 1995



The R and D department of 23 people adjoining the corporate MNE head office was managed by a Chief R and D Manager. R and D staff were divided into hardware and software groups, each headed by a supervisor. People performing the sales/marketing function (performed by about 130 people in 1995) included pre-sales service staff, who were systems people advising on technical solutions, and marketing employees, each of whom focused on a customer set. Sales and Service Supervisors reported directly to their local Branch Managers who, in turn, reported to the Group MD. The branches acted as separate business units. The company tended to recruit from competitors, staff usually having a computing or electrical background with business experience.

High Tech Australia had a workforce that was mainly Australian and of English background. Because of the location of the factory, there were very few employees of Asian or mid-European descent. Most assembly staff were in the age range 20–40 years and predominantly female. All engineers were male, with one exception. The retirement age for men was 65 and 60 for women, although noone was approaching retirement age at the time of the interviews. Only six part-time staff were employed in High Tech Australia and casual staff were used only at peak times. Very little overtime was worked in the company, except for customer service employees on 24-hour standby.

Production Technology of High Tech Australia

High Tech was not capital intensive, but the nature of the technology required highly innovative people in research and development and network design. This was likely to remain the trend. The manufacturing was mainly repetitive and assembly operations required low levels of skills. Boards were assembled and tested. Operatives could be trained in a week, although there was an emphasis on multi-skilled, self-directed work teams/cells. A third of the operators were being trained for formal engineering production certificates. With automatic board manufacturing by robots, operators ran and changed programs before final assembly and testing, with greater levels of skills being needed for the testing stage. Some hand soldering was done, but most assemblies were performed by machines.

Mission and Objectives of High Tech Australia

High Tech Australia's mission was:

> to provide our customers with the best range of communication networking products and solutions available in the world. Our philosophy is to excel in satisfying our customers' needs; our priority is to achieve our customers' objectives; our commitment is to quality and performance.

Since its founding in 1974, according to a recent High Tech Australia Annual Report, the company 'has pursued a business philosophy of seeking diversity in its operations whilst remaining within its key area of expertise in data communications'. The diversity was in (1) geography, technology, products developed in-house or supplied from outside, and (2) potential markets. The challenge was to protect the company against changes in technology, markets or economic conditions in a number of sectors. This resulted in more than 430 of its 750 staff being based overseas by 1995 — mainly in Asia and more than 40 per cent of the company's business coming from that region. The Asian market was serviced from offices in Hong Kong, Singapore, Thailand, China (PRC) and Malaysia, and through agents or distributors in other Asian countries. A presence in Latin America was established in 1995.

High Tech overcame language and cultural issues in Asia by hiring skilled local staff in each region; more than 95 per cent of High Tech's staff in Asia were locals. On the production supply side, it combined its own in-house production with overseas suppliers to provide a complete data communications product range. Almost half of its sales revenue was from its own in-house production. The corporate objectives included sales and marketing targets, a profit return, a market share for their owned designed products, R and D plans and financial objectives (decreased costs, free cash per annum and return on net assets). However, the strategy 'was very operational', rather than long term. One executive said, 'We have still to address: "Where are we going"?'.

HRM/IR Organisation of High Tech Australia

Although the corporate High Tech MNE Group had one mission statement, it had two centres of power — Asia and Australia — and different cultures operated in each. High Tech Australia had no formally documented corporate philosophy towards employees. It could be described as 'soft and friendly', according to one executive. 'The R and D high technology people need latitude to do the job. People join us because they like the environment and tend to stay a long time.' The company had a formal business plan and prepared strategy papers two or three times a year. These papers examined market changes, especially in Australia. Trends were not so rapid in Asia and so it was easier to predict events (a company view which had no doubt changed by 1999). There was a three-year rolling financial plan and an annual budget with forecasts updated monthly. There was not much emphasis on people in these plans as they tended to concentrate on markets and financial goals. The owners did not influence the style of management to a great degree as, although he owned 50.4 per cent of it, the founder of the company only had 'a passive influence', said a manager. High Tech Australia had a TQM program, was focused on internal and external customers, and had key performance indicators (KPIs) which were measured monthly to show cost, speed and quality. The company needed these quality ratings to get government business.

The Company Secretary originally ran the benefits and superannuation (pensions) of the human resource management function as well as the payroll and executive review functions. After the High Tech Group appointed a Group Human Resources Manager to the MNE head office in 1995, he retained only the payroll side. The new Group HR Manager began to formulate policies for High Tech Australia that will be extended to cover all High Tech operations. They included senior managerial compensation across the group and succession and relocation policies. Career development was only practised for the senior executives at annual review, and not much attention was paid to career development for the middle and lower levels. There were no all-encompassing HRM goals, but the company was always looking to decrease overheads and people input, particularly through the TQM philosophy, which emphasised multi-skilling. Labour costs formed about 30 per cent of total manufacturing costs in High Tech Australia. The Australian operation had a policy on car ownership and temporary disability insurance, but many of the HRM procedures and policies were informal. There were no policies or formal procedures on hiring or promotions. Senior executive compensation was determined by a Remuneration Committee of the board that controlled the compensation of all the MDs in Australia, the Americas and Asia, the Director of Technology and their direct reports.

Unionisation of High Tech Australia

Union presence in High Tech Australia was not strong, with 'a few' employees in the manufacturing area being members of the Australian Municipal, Administrative, Clerical and Services Union in 1995 (AMACSU), according to one manager. They had elected one shop steward/delegate, and the production manager included the steward in discussions. For the manufacturing plant, the company had formed a Joint Consultative Committee, which met weekly and consisted of three management and five employee representatives elected by staff. Minutes of these meetings were sent to the appropriate full-time union official. Topics discussed included working hours, flexi-days, leave, conditions and pay. Over the period 1992–94, this committee negotiated a new enterprise agreement for the manufacturing industrial employees and continuously monitored the ongoing implementation of the agreement.

Industrial Staff Compensation in High Tech Australia

The basis for pay of the industrial staff in the manufacturing plant of High Tech Australia was the federal 1972 Business Equipment Industry (Technical Services) Award (AIRC Print No.C3745), to which High Tech and companies such as IBM and Honeywell were respondents and the AMACSU a party. The High Tech production area alongside head office had about 60 employees, with about 30 assemblers and testers, 7 in stores and materials handling, 11 in maintenance, and the remainder in finance and administration in 1992. The company used the classifications in the Business Equipment Industry award, the 1978 classifications in order of compensation being:

1. Customer Engineers (7 levels)
2. Business Equipment Technicians (3 levels)
3. Routine Maintenance Service Persons
4. General Hands
5. Testers
6. Assemblers
7. Checkers
8. Storemen
9. Juniors.

Summarised job descriptions were provided for each classification in the award. The classifications set a fixed weekly rate for jobs other than the Customer Engineer and Business Equipment Technicians, those two being paid according to quoted annual salaries. Junior staff had minimum weekly rates quoted for ages 16–18. For example, in 1978, there were seven rates for Customer Service Engineers, ranging from A$8,282 per annum to A$11,159 per annum. Business Equipment Engineers had three rates (A$8,565, A$9,140 and A$9,761 per annum), and an assembler, tester, and checker could earn A$133.60 per week. The award allowed for over-award payments, a 40-hour week, shift allowances, meal allowances after 2 hours of overtime, and sick leave. Leading Hands received an additional A$6.50 or A$13 per week according to the number of employees supervised.

As this was a federal award, changes to the wage rates and allowances had been approved over the years by the AIRC in line with the National Wage Case principles. In addition, because the industry was fast-changing, the classifications were amended to reflect this and were then implemented by High Tech Australia. In December 1989, the Business Equipment Industry (Technical Service) Award 1978 was revised to conform with the AIRC Structural Efficiency Principle (AIRC Print J0769). The restructured award created six levels of jobs related to the business equipment industry, with each level including a range of positions from the original award. Level 2, for illustration, covered Customer Engineer B and C, and Business Technician 1 and 2. The award stated that the parties accepted that the descriptions of job functions would be more broadly based, that the new classifications would recognise generic skills and knowledge, and that employees were expected to perform a wider range of work, 'including work which [was] incidental or peripheral to their main tasks or functions' (AIRC Print J0769:2). This was not a major restructuring of the award, because the seven classifications of customer engineer and the four for business equipment technician were still present in the award in July 1992 (AIRC Print K3673).

In December 1993, there was a major change to the award with all individual job classifications being replaced by the general categories Technician (Level 1–4) and Technical (Levels 5–6)(AIRC Print 0361). This revised award included the original general hands and assemblers, testers and checkers, who were placed in a new Level 6 technical employee classification. The award described the duties for each classification rather than the skills required. This structure was still operating in 1995, with the wage rates being updated through the AIRC. High Tech Australia was a respondent to the award, and the Australian Chamber of Manufactures (its employer association) conducted the negotiations and advocacy. All allowances were paid according to the award. There was no shift work, although the High Tech Australia had introduced flexible starting and finishing times for the required 8-hour day. Supervisors had to maintain control, but there was a clock card system in operation. While very little overtime was undertaken, additional hours would be worked if there was a large order to fulfil.

Annual leave was in accordance with the award, and there was no bonus incentive or gain-sharing scheme. The basis for pay was, therefore, the job. Extra qualifications and length of service would not result in extra pay, although test and repair staff could be moved to a higher level of pay with the gaining of higher skills. Supervisors monitored performance, but performance was not linked to pay. The High Tech Australia site did not employ anyone under 18 in this category, and every industrial staff member was on the same over-award rate of an extra 2 per cent — a long-standing company policy.

At the time of the first interviews in 1992, the High Tech Australia manufacturing base was considering an enterprise agreement. The intention was to have this ratified by the AIRC. To negotiate a local agreement, the site had a joint consultative/negotiating committee of employer and union representatives (AMACSU), assisted by consultants. The proposal for such an agreement had arisen because of TQM, which resulted in a decrease in costs and greater production from a smaller workforce. The company goal was to have an enterprise agreement linking manufacturing achievement to performance indicators, which could serve as the basis for a 6-monthly bonus system.

High Tech Australia eventually reached agreement with the AMACSU for a single business enterprise agreement certified by the AIRC in August 1994 for a period of two years to July 1996. The agreement's main aim was 'to reduce lead times, improve productivity, and achieve labour flexibility'. The agreement had to be read and interpreted in conjunction with the Business Industry (Technical Services) Award, although the enterprise agreement takes precedence in the event of an inconsistency. It had several clauses on measures to achieve gains in efficiency — such as a flexible organisational structure to underpin the new classification system, and flexible work practices between all work stations subject to employee competence. Hours of work were 38 per week for day workers and shiftworkers, although the expectation was 40.5 hours per week over a 9-day fortnight for day employees. Other provisions in the agreement covered paid training programmes, redundancy pay, counselling, discipline, and a 'no extra claims' undertaking for the life of the agreement.

The heart of the bargain was the new classification structure, which had two levels of technical employees (Levels 6 [lower] and 5) and two levels of more highly paid technicians (4[lower] and 3) with a fixed annual salary for each. Level 6 was the new entry grade and, after training, it was expected that most staff would work at Level 5 after demonstrated competence. To progress beyond this, employees had to gain further competencies.

By 1995, the numbers of direct manufacturing employees had declined to 39, a cellular manufacturing system having been introduced. The cells set their own targets, had their own meetings, and had control of sourcing of materials. They had their own R and D personnel, production engineer and purchasing officer. Cell managers were appointed on salary staff conditions, reporting to the Production Manager. Leading Hands in the cells were selected on the basis of experience and length of service, and their salaries were individually negotiated and set above the Business Equipment Award levels. Leading Hands had Rostered Days Off and the same hours as

Operators, but with the new enterprise agreement, the Leading Hands were paid A$12 per week extra on top of their appropriate skill level pay. They could progress in compensation by attaining more competencies. The federal Business Equipment Award was used as a guide for conditions of service. In 1995, the production staff were given one week's bonus pay based on profits. In addition, High Tech Australia was working on cell cash incentives, which would be over and above the enterprise agreement rates.

Clerical and Administrative Compensation in High Tech Australia

The compensation policy for clerical staff was an individually negotiated package. Australia-wide, there were about 50 employees in the clerical/administrative category in High Tech in 1992. There was no formal job evaluation, but informal schemes evolved, with the various state clerical awards acting as the basis for clerical compensation. Under Australian industrial law, if a company is not a formal respondent to a federal or state award, it will automatically be bound by the provisions of the relevant state award. The Victorian State Clerical and Administrative Award negotiated by the former Federated Clerks' Union (now the AMASCU) is used as an example here to show how High Tech Australia worked with a state award.

The Victorian Clerical and Administrative Award dates back to 1913. At the time of High Tech's commencement in 1974, clerical staff in the state were paid on three classifications: (1) those who filed and sorted paper, (2) general clerks (e.g. copy typists, switchboard operators, and machine operators), and (3) stenographers, audio-typists, tele-typists, punch-card operators and accounting ledger clerks. A set weekly wage for each grade was awarded, and a separate rate given for males and females, and those aged 16–20 (see Victorian ERC Print 11800/74). This structure persisted throughout the 1980s, and the salaries in the determinations were updated as a result of AIRC NWC decisions at federal level.

In 1990, the Victorian Clerical and Administrative Employees' Award was restructured to reflect a skills base rather than a job base (Victorian ERC Print 76637/91). Seven pay grades were introduced, and skills were defined for each grade. These included technical and secretarial skills, enterprise/industry knowledge, information handling, business/financial knowledge required, training and qualifications, and supervisory and specialists skills. Different weekly salaries were awarded in the first three grades for length of service up to 12 months. In January 1994, the seven grade-structure was reduced to six by the Victorian industrial tribunal, with fixed-point salaries for the skills listed for each grade (Victorian ERC Case 93/0831).

Although the Victorian Clerical and Administrative Award was first restructured in 1990, at the time of the first interviews in 1992, High Tech Australia had not assessed its impact. The revised award had clearly defined levels of skill, and so the company had to fit people into the new definitions of the award. High Tech Australia was not a direct respondent to the Victorian State Clerical and Administrative Award, and relied on the ACM (Australian Chamber of Manufactures) to do the negotiating at the tribunal, but the company observed any changes in the award. In practice, High Tech Australia paid about 20 per cent over the award to obtain satisfactory staff, but no incentive pay, performances bonuses or special allowances were made. The company's hours of work were 35 per week although the award recommended 38. There was no shift work and very little overtime except at high peak times. Compensation was paid monthly and leave was in accordance with the award. There was no gain-sharing scheme.

By 1995, all clerical employees in High Tech Australia had individual contracts with above-award rates. The salary levels were market- and performance-based, and there was a review of performance every July at which performance criteria were set. Guidelines for recommended maximum amounts for merit increases linked to performance were given to supervisors. Neither seniority nor qualifications would generate extra pay because, according to the company, they might not make any impact on the job performance. Actual earnings of clerical staff were kept secret, but there was no requirement for staff to sign a confidentiality document. This part of the salary system applied to junior clerical staff, clerical supervisors and junior administrative managers.

For clerical staff in other states across the company, the various state clerical awards also formed the minimum levels for payment. High Tech Australia management stated that most compensation paid was above the award and in line with the going rates in the labour market established by consultants' and agencies' surveys.

Sales and Technical Service Compensation in High Tech Australia

In 1992, the salaries for staff in sales roles reporting to Branch Managers nationally were individually negotiated. Sales employees had a pay package of a base salary plus commission, and usually operated with their own cars and travel expenses reimbursed. Base salaries were reviewed every June against data from salary surveys of other companies. Because there was a sales force conference in July of each year, salaries had to be fixed before then. There were targets for commission, which was originally paid on billings. If sales people exceeded the targets set by the Branch Managers, the percentage increased. The difference in hardness and softness of markets was taken into account and so with a soft market, the commission was less. This system had evolved over the years, had been decided at the top of the organisation, and was seen as the best scheme the company had had so far. At least, in the words of one executive, High Tech Australia had received the fewest number of 'grumbles' about it.

By 1995, the commission in the compensation scheme had changed to a gross margin basis (revenue minus cost of goods sold) with set targets, and constituted more than half of the total package, compared with about one-third previously. Sales staff received no overtime and worked a nominal 9-to-5 day, but had to be flexible because of the nature of the job. The other conditions of service were prescribed in the State Commercial Travellers' Award relevant to each state except for Victoria, where state awards had been phased out after 1993. All state awards are different, but High Tech Australia gave superannuation, annual leave and long service leave in accordance with the awards while other conditions were company policy.

The compensation for sales staff in branches can be compared with that for staff in technical customer support. Prior to 1992, the basis of compensation for the customer service personnel had been a rate for the job, which was individually negotiated within a set structure. The steps in the progression were: (1) bench engineers, (2) service engineers, (3) senior service engineers, and (4) technical assistance. The fixed salary for each of these levels was approximately 20 per cent above the federal Business Equipment Industry (Technical Service) Award rate. The over-award payment recognised the rates operating in the market and the fact that employees specialised in particular areas. The conditions for service staff were based on the Business Equipment Industry Award.

After 1992, the basis for compensation for the customer service personnel in High Tech Australia working across Australia was changed to a fixed salary plus variable component based on performance. The variable part was based on customer satisfaction and efficiency criteria. The technicians' respective supervisors assessed each category and the employee could respond to the assessment. There were brackets of increases which could be used and there was a cap on these. Staff were paid well above the rates of the federal Business Equipment Industry (Technical Service) Award, had a company car and were paid overtime.

The fixed pay component for the customer service personnel in 1995 was based on a new career structure developed for them by High Tech Australia. Under the new scheme, staff started as bench technicians — probably with a Technical Certificate in Technology/Electronics. The next stage was customer service engineer (unsupervised). The third was senior customer engineer (supervisor of three or four people). In the fourth, the systems engineer (software) had to have an Associate Diploma in Electronics. Prior to 1992, salaries for service staff were set according to the job and there was little difference between employees, although they were still paid more than the Award. They received overtime, and under the Award provisions they were on standby once a month by rotation. Standby included being available from 5 pm to 9 pm in the evenings and all weekend to provide a 24-hour coverage for customers. By 1995, the base compensation was thus a mixture of job and skills plus a performance element.

Research Compensation in High Tech Australia

There were originally about 60 employees in High Tech Australia in the Research and Development area in 1992. By 1995, this had declined to about 23, with the staff centralised on the head office site. Their compensation packages were negotiated with the R and D Manager individually and were based mainly on market forces. There was no particular philosophy of pay, and no job evaluation, performance bonus or salary structure. It was a very flexible system, with no paid overtime. Team leaders were appointed for group research, based on their competence. They had progressed from junior positions and some had moved into other areas in the company. R and D staff could work at home or on site; there were no strict rules. Their annual leave was a standard package like other salaried employees in High Tech. According to one executive,

> The main difficulty with the R and D staff was trying to get the stuff done on time, as speed and costs were the crucial factors in R and D rather than how much R and D was ahead of the market.

The basis of R and D pay was therefore competitive rates and payment for skill. The pay was secret, and research employees did not discuss their respective salaries. There were no performance indicators in this area, but in 1995, senior management was looking at this.

Managerial Compensation in High Tech Australia

The management levels were divided into two groups for analysis: (1) Senior Managers such as the Managing Director (MD), Company Secretary/Chief Financial Executive, and Manufacturing Manager, and (2) Middle Management. A Remuneration Committee of the board based at the corporate High Tech MNE head office in Australia decided the compensation for all directors, and the MDs of Australia, the Americas and Asia, the Director of Technology, and their direct reports. Advice was provided to the committee by the Group HR Manager. The non-executive directors received an annual fixed fee for their services recommended by the board to shareholders. The compensation packages for the Chairman, and MDs for Australia, the Americas and for Asia were based on the achievement of pre-set targets on key financial and non-financial key performance indicators (KPIs) such as return on investment, inventory held, and amount of debt. They received a fixed sum plus a bonus based on the KPIs. All CEOs were on a similar package 'so they could be shifted around the company' stated the Company Secretary.

The Manufacturing Manager's position was not job-evaluated. The fixed sum was 80 per cent of his total package with a variable component of 20 per cent based on performance factors such individual objectives, profit and productivity. The fixed component was based on the cost of living and the non-variable part of the job. It also included superannuation and some flexibility to chose benefits within a total cost. No recognition for length of service was given, although the job would be paid more if it expanded in scope.

Equal ranking executives in different functions were paid differently because of market forces. The compensation for executives was secret apart from the company law disclosure requirements. The publicly available 1995 Annual Report for the corporate MNE lists the four executive directors as receiving compensation between A$300,000 and A$639,999 per annum. The executive jobs were reviewed annually and benchmarked against other companies through an industrial association's bi-annual compensation publication. The High Tech Australia Manufacturing Manager's performance was assessed annually, and his package was reviewed by his superior. Goals were reset for the following year and confirmed in writing. The manager received a share of the profits after tax. Similarly, the MD (Asia) was paid a percentage of the Asian region profits.

For middle managers' compensation, such as that for the Branch Managers and Sales and Service managers (who reported to Branch Managers), no formal job evaluation was used prior to 1995, and the packages had fixed and variable components. The variable-factor compensation was usually based on profit targets and objectives to be achieved. The objectives, which were linked to the business plan of the company, were set individually for each member of staff. Senior management reviewed progress against the objectives. A flat bonus sum was available and the manager would know in advance what amount it was likely to be. A percentage of the amount available was given if objectives were only partly achieved. A maximum bonus of perhaps A$10,000 was possible.

Some basic conditions applied across High Tech Australia for middle managers. They included an expectation of flexible hours and no paid overtime. There were some bonuses for specialists that were applied ad hoc for outstanding performance. Staff were reviewed annually, but there was no formal performance appraisal system. It consisted of a 'discussion' only, according to an executive. In previous years, reviews may not have occurred at all, and a staff member might have just received an increase.

This changed in 1995 with the new Group HR Manager, who introduced a formal middle management job evaluation system for the Group MD's direct reports and below in High Tech Australia. The scheme was based on a consultant's recommendations, although at the 1996 interviews the company was reluctant to provide details about how well this was working. However, the packages again consisted of fixed and variable components based on negotiated individual objectives, with the variable part usually being lower in more junior positions. A salary budget was fixed for each department, and senior management could decide what percentage to make variable for each manager. The Branch Managers' 1995 compensation consisted of an evaluated base salary, a variable part based on individual objectives, and a profit component based on the outcome of the branch budget.

Employee Benefits in High Tech Australia

The basic employee benefits for lower-level staff in High Tech Australia were incorporated in federal and state awards. For example, common employee benefits of the Business Equipment Industry (Technical Service) 1972 Award, the Clerical and Administrative Employees Award of Victoria and the Commercial Travellers and Market Researchers' Award of Victoria were:

- Accident make-up pay
- Adoption leave
- Amenities (first aid, washing)
- Annual leave
- Compassionate leave
- Jury service make-up pay
- Maternity leave
- Motor vehicle allowances
- Overtime
- Public holidays
- Sick leave
- Superannuation (pension)
- Travelling and board on business.

Each of the awards had slight variations. Salespeople had an extra provision for loss of personal items while working away from the home base, but had no shiftwork provision. The Business Equipment Industry Award had a requirement for Technical Service personnel to be on standby duty on a regular basis in case of a customer callout. The clerical staff were entitled to advanced notification about the introduction of technological change, rest periods, uniform allowances, floor covering when standing on concrete, and security cover for young employees making deposits for the company in a bank. Under the new High Tech Australia enterprise agreement for the manufacturing employees which supplemented the federal Business Equipment Industry (Technical Service) Award, time off in lieu of overtime and redundancy pay were added.

The High Tech Australia company commenced paying for superannuation for industrial staff and customer service technicians in October 1986. In 1989, industrial tribunals recommended superannuation for clerical employees, so High Tech Australia contributed sums for them to the same fund as for industrial staff and the customer service engineers. Sales staff were covered by superannuation by 1990. The remaining staff of High Tech were covered by the company's own superannuation scheme. All these initiatives conformed with the 1992 Superannuation Guarantee legislation, which made an employer's contribution of four per cent compulsory in 1992, rising to nine per cent by 2003. In 1995, High Tech Australia was paying six per cent of salary for all employees.

Employee benefits varied according to employee category. The managers in High Tech Australia had defined benefits packages including a share purchase plan, and could take out an operating lease on a car from a limited list of motor vehicles. If they wished to 'salary sacrifice' for a more expensive vehicle (i.e. pay the extra expense out of pre-taxed gross salary), the lease was placed in their name so that if they resigned, 'the car went with them', said the Company Secretary. Salespeople, service technicians and higher-paid administrators also had the choice of leasing a car on a salary sacrifice basis or receiving a car allowance for use of their own vehicle. The Fringe Benefits Tax (FBT) caused a substantial narrowing of benefits for executives.

The standard profile of the employee benefits to enable a comparison with those in Singapore is shown in Table 11.1. From this, it can be noted that the common benefits across all grades were compassionate leave, long term/disability leave, retrenchment benefit, study leave/benefit, disability insurance, long service certificate (non-financial), annual leave, family leave, social club, and reimbursement for use of own transport on company business. In addition, similar public holiday leave and superannuation were offered to all staff.

Table 11.1

Employee Benefits Profile for High Tech Australia as at 1995

	Industrial/ Blue Collar Unskilled	Skilled	Clerical/ Admin	Sales/ Technical	Professional/ Management	Board
Acting allowance						
Annual leave	✓	✓	✓	✓	✓	✓
Attendance allowance	✓	✓				
Business entertainment expenses				✓	✓	✓
Cellular phones			✓(1)	✓	✓	✓
Co-operative shares					✓	✓
Compassionate leave	✓	✓	✓	✓	✓	✓
Death benefit						
Dental treatment						
Early retirement schemes						
External/social recreational club membership	✓(2)	✓(2)	✓(2)	✓(2)	✓(2)	✓(2)
Festive loan/advance						
Fixed monthly transport allowance						
Free medical treatment/medicine						
Funeral leave benefit	✓(3)	✓(3)	✓(3)	✓(3)	✓(3)	✓(3)
Hospital ward benefit					(4)	(4)
Housing loan						
Housing renovation loan						
Insurance	✓(5)	✓(5)	✓(5)	✓(5)	✓(5)	✓(5)
Laundry benefit	✓	✓				
Long service award	✓	✓	✓	✓	✓	✓
Long-term illness	✓	✓	✓	✓	✓	✓
Machine allowance	✓	✓				
Marriage leave						
Maternity leave	✓(6)	✓(6)	✓(6)	✓(6)	✓(6)	✓(6)
Meal allowance	✓(7)	✓(7)				
Medically board-out benefit	✓(8)	✓(8)	✓(8)	✓(8)	✓(8)	✓(8)
Other loans						
Paternity leave	✓(6)	✓(6)	✓(6)	✓(6)	✓(6)	✓(6)
Provision of car			✓(9)	✓	✓	✓
Reimbursement for use of own car on company business	✓	✓	✓	✓	✓	✓
Retirement benefit (>CPF) [Singapore]						
Retrenchment benefit	✓(10)	✓(10)	✓(10)	✓(10)	✓(10)	✓(10)
Service benefit						
Shift allowance	✓	✓				
Sick leave	✓	✓	✓	✓	✓	✓
Specialist surgical fee						
Study leave benefit	✓	✓	✓	✓	✓	✓
Superannuation (Australia)	✓	✓	✓	✓	✓	✓
Transport benefit/allowance/ reimbursement	✓(11)	✓(11)	✓(11)	✓(11)	✓(11)	✓(11)
Uniform	✓	✓				
Union day leave						
Union education leave	✓	✓				
Unpaid leave	✓(8)	✓(8)				
Voluntary resignation benefit						

Notes:
(1) Some (2) Run by staff (3) Leave only (4) Prior to FBT, was part of package (5) Disability only (6) Family leave for males. (7) For overtime working (8) Discretionary (9) Salary sacrifice basis (10) Based on Australian Industrial Relations Commission rules (11) Reimbursement only.

Role of High Tech Australia Corporate Head Office

As the Australian parent, the corporate MNE High Tech centralised the compensation decisions at head office for the employees working in High Tech Australia. Decisions on bonuses on performance were to some extent delegated to senior management. The packages for the MDs for the Group (Australia, the Americas and Asia) and their immediate reports plus the non-executive directors were all approved by the corporate MNE Board's Remuneration Committee, with recommendations coming from the chair, and more recently in conjunction with the Group Human Resource Manager. Compensation systems for the remainder of the Australian staff were recommended by the senior line management and agreed formerly with the Company Secretary and then with the Group Human Resource Manager. The enterprise agreement for the manufacturing staff was negotiated mainly by the Manufacturing Manager who used an employer association and a consultant to assist with the negotiations.

The Profile of High Tech Australia Compensation

Tables 11.2 to 11.7 show High Tech Australia's profile for the rewards of industrial, clerical, sales, technical, research, and middle and senior managerial staffs using the Gomez-Mejia and Balkin (1992) concepts of Algorithmic and Experiential compensation patterns. The profile for the High Tech Australia **industrial** staff is provided in Table 11.2. The original use of the federal Business Equipment Industry (Technical Services) Award meant that High Tech Australia's industrial manufacturing staff were originally paid by job classification, but with the enterprise agreement, the basis became predominantly skill. However, in general, the industrial compensation was Algorithmic. By comparison, the **clerical** compensation (Table 11.3) had even more Algorithmic features. It had a structure that was loosely tied to the states' clerical awards, which were originally job-based and, more recently, skill-based. On the other hand, the **sales** staff (Table 11.4) were paid on performance, with general annual reviews, short-term targets, and commission playing an important part of the compensation package. The compensation was generally balanced between Algorithmic and Experiential factors.

The **technical** service employees (Table 11.5) were similarly paid on performance with short-term criteria, although High Tech Australia set up a structure based on job skill and qualifications for base pay. Their whole compensation was mainly

Table 11.2

Summary Profile of Algorithmic (A) and Experiential (E) Compensation Patterns of Industrial Staff Compensation in High Tech Australia [1] as at 1995

High Tech Australia Industrial Staff		
	Compensation Feature	**A or E**
(a) Basis for Pay		
Unit of analysis	Skill based	E
Criteria for pay increases	Skill progression & NWC increases	A [2]
Level of performance measurement	None - not applicable	-
Time orientation	Not applicable	-
Risk sharing	Low	A
Strategic focus	Not applicable	-
Equity concern	Formal structure	A
Reward distribution	Differences in benefits	A
Type of control	Assessment of skills	A
(b) Design Issues		
Salary market policy	Unknown	-
Benefits market policy	Unknown	-
Incentives in pay mix	None	A [4]
Total compensation	Low future potential/ higher immediate payoffs[3]	A
Reinforcement schedule	NWC increases in Enterprise Agreement	A
Reward emphasis	Mainly pecuniary	E
(c) Administrative Framework		
Decision making	EA for manufacturing only	E
Pay disclosure	High: public AIRC[5] document	E
Governance structure	Union participation	E
Nature of pay policies	Formalised in awards	A
	TOTAL	A = 9 E = 5 Unknown = 2 N/A=3[6]

Notes: **(1)** There were no industrial staff in High Tech Singapore. **(2)** Rises were available through skill progression or by overall increases in enterprise agreement rates through National Wage Case (NWC) decisions. **(3)** The Enterprise Agreement for 3 years did not allow extra claims for compensation increases unless they were consistent with NWC decisions **(4)** Bonuses have been given to all industrial employees based on overall performance in manufacturing. **(5)** Australian Industrial Relations Commision (6) Not applicable

Table 11.3

Summary Profile of Algorithmic (A) and Experiential (E) Compensation Patterns of Clerical Staff Compensation in High Tech Australia and High Tech Singapore as at 1995

High Tech Australia Clerical Staff			High Tech Singapore Clerical Staff	
	Compensation Feature	**A or E**	**Compensation Feature**	**A or E**
(a) Basis for Pay				
Unit of analysis	Skill/individual negotiation	E (1)	Skill/individual negotiation	E (2)
Criteria for pay increases	Performance	E	Performance	E
Level of performance measurement	Individual performance appraisal (PA)	A	Individual PA and aggregate	E
Time orientation	Short-term (annual)	A	Short-term (annual)	A
Risk sharing	Low- merit increase only	A	Loss of bonus	E
Strategic focus	Not applicable	-	Not applicable	-
Equity concern	Individual salary/market driven	E	Individual salary/market driven	E
Reward distribution	Different employee benefits	A	Different employee benefits for executives	A
Type of control	Informal performance appraisal	A	Formal PA (behaviour)	A
(b) Design Issues				
Salary market policy	Unknown	-	Unknown	-
Benefits market policy	Unknown	-	Unknown	-
Incentives in pay mix	Base, salary is important	A	Bonus varies each year	A/E
Total compensation	Low future potential/higher imediate payoffs	A	Low future potential/higher immediate	A
Reinforcement schedule	Mainly on merit and market rates	A	Annual review & twice yearly bonus	A
Reward emphasis	Pecuniary	E	Pecuniary	E
(c) Administrative Framework				
Decision making	Central control by H.R. Manager	A	Decentralised	E
Pay disclosure	Low	A	Low	A
Governance structure	Non-union	A	Non-union	A
Nature of pay policies	Case by case	E	Case by case	E
	TOTAL	A = 11 E = 5 U/K=2 (3) N/A=1(4)	**TOTAL**	A = 7 E = 8 A/E = 1 U/K=2(3) N/A = 1(4)

Notes:(1) The company paid above the award levels for each skill based classification of the states' awards.**(2)** More compensation is given for formal qualifications. This is equated here with skill **(3)** Unknown **(4)** Not applicable

Table 11.4

Summary Profile of Algorithmic (A) and Experiential (E) Compensation Patterns of Sales Staff Compensation in High Tech Australia and High Tech Singapore as at 1995

	High Tech Australia Sales Staff		High Tech Singapore Sales Staff	
	Compensation Feature	**A or E**	**Compensation Feature**	**A or E**
(a) Basis for Pay				
Unit of analysis	Job	A [(1)]	Job	A [(1)]
Criteria for pay increases	Performance and annual review of base rate	A/E	Performance/sales	E
Level of performance measurement	Individual	A	Not applicable	-
Time orientation	Short-term	A	Short-term	A
Risk sharing	Loss of commission	E	Loss of commission	E
Strategic focus	Not applicable	-	Not applicable	-
Equity concern	Base rate - market driven	E	Individual salary/market driven	E
Reward distribution	Differences in benefits	A	Few different employee benefits for executives	E
Type of control	Commission based on sales	E	Commission based on sales	E
(b) Design Issues				
Salary market policy	Unknown	-	Unknown	-
Benefits market policy	Unknown	-	Unknown	-
Incentives in pay mix	High	E	High	E
Total compensation	Low future potential/higher immediate payoffs	A	Low future potential/higher immediate payoffs	A
Reinforcement schedule	Commission paid regularly	E	Regular commission	E
Reward emphasis	Pecuniary mainly	E	Pecuniary	E
(c) Administrative Framework				
Decision Making	National scheme but commission is locally driven	A/E	Decentralised	E
Pay disclosure	Low	A	Low	A
Governance structure	No union	A	Non-union	A
Nature of pay policies	National pay system, but individual commission system	A/E	Case by case	E
	TOTAL	A = 7 E = 6 A/E = 3 U/K=2[(2)] N/A=1[(3)]	**TOTAL**	A = 5 E = 10 U/K=2[(2)] N/A=2[(3)]

Notes: (1) Without formal job classification systems, it could be argued that employees were paid for skills possessed as well. (2) Unknown (3) Not applicable

Table 11.5

Summary Profile of Algorithmic (A) and Experiential (E) Compensation Patterns of Technical Service Staff Compensation for High Tech Australia and High Tech Singapore as at 1995

	High Tech Australia Technical Service Staff		High Tech Singapore Technical Service Staff	
	Compensation Feature	**A or E**	**Compensation Feature**	**A or E**
(a) Basis for Pay				
Unit of analysis	Mixture of job and skills	A/E	Job	A (2)
Criteria for pay increases	Performance	E	Performance	E
Level of performance measurement	Individual	A	Individual PA and aggregate	E
Time orientation	Short-term	A	Short-term (annual)	A
Risk sharing	Unknown	-	Loss of bonus	E
Strategic focus	Not applicable	-	Not applicable	-
Equity concern	Structure plus above award	A/E (1)	Individual salary/market driven	E
Reward distribution	Different benefits for senior staff	A	Different employee benefits for executives	A
Type of control	Customer feedback and other measures	E	Formal performance appraisal (behaviour)	A
(b) Design Issues				
Salary market policy	Unknown	-	Unknown	-
Benefits market policy	Unknown	-	Unknown	-
Incentives in pay mix	Base salary is important	A	Bonus varies each year	A/E
Total compensation	Low future potential/higher immediate payoffs	A	Low future potential/higher immediate payoffs	A
Reinforcement schedule	Annual incentives	A	Annual review and twice yearly bonus	A
Reward emphasis	Pecuniary	E	Pecuniary	E
(c) Administrative Framework				
Decision making	Structure decided centrally	A	Decentralised	E
Pay disclosure	Low	A	Low	A
Governance structure	Non-union	A	Non-union	A
Nature of pay policies	Case by case incentive	E	Case by case	E
	TOTAL	A = 9 E = 4 A/E = 2 U/K=3(3) N/A=1(4)	**TOTAL**	A = 8 E = 7 A/E = 1 U/K=2(3) N/A=1(4)

Notes:(1) The structure had skills and performance elements **(2)** Without formal job classification systems, it could be argued that employees were paid for skills possessed. **(4)** Unknown **(5)** Not applicable

Table 11.6

Summary Profile of Algorithmic (A) and Experiential (E) Compensation Patterns of Research Staff Compensation in High Tech Australia as at 1995 (1)

High Tech Australia Research Staff		
	Compensation Feature	**A or E**
(a) Basis for Pay		
Unit of analysis	Skills	E
Criteria for pay increases	Tenure	A
Level of performance measurement	None-not applicable	-
Time orientation	Short-term	A
Risk sharing	No risk element	A
Strategic focus	Not applicable	-
Equity concern	Mainly market driven	E
Reward distribution	Different benefits	A
Type of control	No appraisal-not appicable	-
(b) Design Issues		
Salary market policy	Not known	-
Benefits market policy	Not known	-
Incentives in pay mix	None	A
Total compensation	Low future potential/higher immediate payoffs	A
Reinforcement schedule	Annual review	A
Reward emphasis	Pecuniary	E
(c) Administrative Framework		
Decision making	Central policy	A
Pay disclosure	Low	A
Governance structure	Non-union	A
Nature of pay policies	Case by case	E
	TOTAL	A = 10 E = 4 U/K=2(2) N/A=3(3)

Notes:(1) There were no research staff in High Tech Singapore **(2)** Unknown **(3)** Not applicable

Table 11.7

Summary Profile of Algorithmic (A) and Experiential (E) Compensation Patterns of Management Staff Compensation in High Tech Australia and High Tech Singapore as at 1995

	High Tech Australia Management Staff		High Tech Singapore Management Staff	
	Compensation Feature	**A or E**	**Compensation Feature**	**A or E**
(a) Basis for Pay				
Unit of analysis	Job	A	Job	A
Criteria for pay increases	Strong performance element	E	Performance	E
Level of performance measurement	Individual and aggregate	E	Individual	A
Time orientation	Short-term	A	Short-term	A
Risk sharing	High variable component	E	High variable component	E
Strategic focus	Business unit/regional focus	E	Business unit	E [3]
Equity concern	Comparable pay relationships	A	Market and objectives driven	E
Reward distribution	Special rewards for executives	A	Few special rewards for executives	E
Type of control	Objective measures	E	Objective measures	E
(b) Design Issues				
Salary market policy	Not known [1]	-	Not known	-
Benefits market policy	Not known [1]	-	Not known	-
Incentives in pay mix	Incentives important	E	High incentives	E
Total compensation	Low future potential/higher immediate payoffs	A [2]	Low future potential/higher immediate payoffs	A
Reinforcement schedule	Annual	A	Mainly annual [4]	A
Reward emphasis	Pecuniary	E	Pecuniary	E
(c) Administrative Framework				
Decision making	Centralised pay policy	A	Decentralised to subsidiary and regional office	E
Pay disclosure	Low for indiviual salaries	A	Low	A
Governance structure	Some choice of benefits	E	Determined by company	A
Nature of pay policies	General rules, but case by case	E	Mainly case by case	E
	TOTAL	A = 8 E = 9 U/K=2 [5]	**TOTAL**	A = 7 E = 10 U/K=2 [5]

Notes: **(1)** Salaries and benefits are, however, bench marked against industry standards. **(2)** The incentives components are annual, but a share purchase option was available. **(3)** Although the managerial objectives are individually set, it could be argued that they relate directly to business unit performance. **(4)** Service Manager received quarterly bonus **(5)** Unknown

Algorithmic as was that of the **research** staff (Table 11.6) who had annually reviewed individual salaries based on their skills without incentives. The compensation for the **senior management** (Table 11.7) was centralised through the Remuneration Committee of the board. It was mainly based on job and performance, with individual and aggregate criteria. The senior managerial compensation in High Tech Australia was a balance of Experiential and Algorithmic features.

Using the Gomez-Mejia and Balkin (1992:61) profile of compensation patterns, it was evident that High Tech Australia had a variety of patterns. The lack of awards at the higher levels of the organisation seemed to have given the company more choice and flexibility. It had also considered the various behaviours it wanted to encourage among the different occupations and then attempted to design a compensation system to facilitate them.

High Tech Australia Compensation and the External Environment

Taking the four research questions as the starting point for analysing the effects of the external environment on High Tech Australia's compensation systems, in the first interviews with the Company Secretary, he was of the opinion that the legislative framework was constraining to some extent, in that the company was conscious that it could not pay less than state and federal award rates. He continued:

> Equal pay laws are not a problem because we have a wage for a position irrespective of sex. FBT had a major impact because there was a lot of reorganisation of certain allowances on its introduction. Before the company was floated in 1985, everyone was a contractor. There were no cars or anything. Then they became employees and we introduced cars after FBT came in because it was competitive practice for certain jobs. Then we introduced temporary disability, which was not affected by FBT...Health is affected though...No-one will salary sacrifice for super [superannuation] except for one or two. 'Super' is optional so people prefer the cash. Even the production employees prefer the four per cent in cash.

The Company Secretary then referred to superannuation as a national industrial issue and its inclusion in awards. He went on:

> In October 1986, the production and the customer service people went into 'super'. The tribunal said that the money could go into one fund. Then in 1987, the clerical employees were awarded 'super' and went into the same fund...The sales staff got it in 1990, but they are paid so much more than the award...They got three per cent. Now four per cent applies to everyone up to 80K...With the people who did not get 'super', their money goes into the company [High Tech] fund...The employees think superannuation is government guaranteed and can't go bust...For us, it is just an add-on...an extra cost...it did not affect the structure...The October '86 'super' for the production people was in lieu of a four per cent pay increase at the time anyway.

In a later interview, the Company Secretary said of the national superannuation legislation and the FBT:

> We comply. We have some on salary sacrifice, and the enterprise agreement people have an ACTU industrial fund. Everyone else is in the [High Tech] fund...about 200 in this...We have followed the percentages of the legislation. With the FBT changes, salary packaging ceased. School fees went back to base salary on a tax adjusted basis. There's only one benefit left - cars...This is the policy for Australia only. The only people who get cars in Asia are the CEOs.

The impact of the state of the economy had a major effect on the level of pay in High Tech Australia. The Company Secretary observed at the initial interviews:

> We have been holding pay and structures up to 1st July 1992 for three years. At one stage, we decreased pay to keep people...Anyone 30k and above...We could not touch those on less than 30K...We had a pay cut for six months...We don't adjust non-award salaries with the CPI...With higher unemployment, it's easier to get cheaper and good quality people, especially finance staff...This may not apply in R&D though...

Increases granted by the industrial tribunals for the production staff were passed on to High Tech employees. Any relevant principles of the AIRC NWC were also followed, including the requirements for an enterprise agreement. Several years later, the Company Secretary stated:

> Increases now are quite modest compared with five or six years ago. Everyone's getting more modest increases. Compare that with Asia...Executives are paid two to three times more in Singapore and Hong Kong than here...The cost of living is very high...In Malaysia, they are on 25 or 50 per cent of Australian rates.

With regard to the effect of the Australian national culture on pay design, he did not perceive many features of Australian society that would constrain him in the design of compensation systems. He went on:

> The Taiwan employees always want shares, but the philosophy of the company [High Tech Australia] is not to use incentives where this might damage performance or increase risk taking. I don't have a big variable component in my pay because I might take risks with investments to increase profits. The Sales and Marketing employees are more money motivated...They'll walk over broken glass for extra earnings. We have 20/80 variable/fixed for senior managers, and incentives for sales, but incentives are not used at lower levels.

The Company Secretary, at a later interview, indicated that;

> Australian managers and subordinates have small pay gaps...Scandinavia is the same...is just how life is...In Brazil, the CEO and two levels down, the gap is extremely wide.

On incentives, he commented:

> I think executive options are the right way for performance...We have rules about the limits per year. Asia got share options with the shares at ten cents...They're now worth a dollar eight.

Taking pay and culture further, Table 11.8 shows the extent to which the Hodgetts and Luthans (1993b) recommendations for compensation for the cultural dimensions found in Australia by Hofstede (1980) are reflected in the High Tech Australia compensation systems. There were varying degrees of conformity and non-conformity with the recommendations between the six pay systems. The small range of classifications and skills for the industrial employees was appropriate for the low Power Distance of the Australian culture, but without salary data for the rest of the organisation (except for the directors), it was not possible to conclude whether the gap in income between the lowest and highest paid was great. High Tech did, however, differentiate between employee benefits for various categories of staff. No gain-sharing or profit plans applied across the workforce, although the senior executives did benefit from the latter.

The emphasis on individual performance was uneven across the occupations, and while the company used external rates' indicators to set salary levels for most employee groups, any pay rises for the industrial employees were dependent on the recommendations of the AIRC NWC rather than the local labour market levels. In general, however, there was a high degree of support for the Hodgetts and Luthans (1993b) recommendations for a high Individualistic national culture. High Tech Australia had few family-friendly employee benefits beyond the mandatory ones, so conformed to the moderately high Masculinity dimensions of Australia (Hofstede, 1980). There was little sharing of the financial risks in the company (except at managerial levels), normally recommended for a moderately weak Uncertainty Avoidance culture, although there was an emphasis on performance in four occupations out of six. All this suggests that with several compensation systems in an organisation, other internal and external factors may override the influence of national culture across them all, so that the fit with the culture may vary.

The influence of the industrial relations system on subsidiary design was the fourth research question. According to the Company Secretary:

> Trade unions have little influence...it's only on the production floor...They are becoming more vocal as people get laid off. They like to be consulted...But they're only a minor irritant as there are only 18 members and are included in the consultative mechanisms even though they only have small numbers...But we followed the Accord and the '87 adjustments and the restructuring principles in '88.

Table 11.8
The Hodgetts and Luthans (H&L) Recommendations for Compensation in Australia as Reflected in High Tech Australia

AUSTRALIA							
Hofstede Dimension Index	**H&L Recommended Compensation**	**Industrial Staff Compensation**	**Clerical Staff Compensation**	**Sales Staff Compensation**	**Technical Staff Compensation**	**Research Staff Compensation**	**Managerial Staff Compensation**
1. Moderately low Power Distance	•Low salary gaps between lowest and highest paid	Yes, within award, but company range unknown	Unknown	Unknown	Unknown	Unknown	Unknown
	•Low benefits gaps	No	No	No	No	No	No
	•Gain-sharing	No	No	No	No	No	No
	•Profit-sharing	No	No	No	No	No	Yes
2. High Individualism	•Individual performance based	No	Yes	Yes	Yes	No	Yes
	•External equity/ competitiveness	No (1)	Yes	Yes	Yes	Yes	Yes
	•Emphasis on short-term achievement	No	Yes	Yes	Yes	No	Yes
3. Moderately high Masculinity	•Few family benefits	Yes	Yes	Yes	Yes	Yes	Yes
	•Gender pay differences	No	No	No	No	No	No
4. Moderately weak Uncertainty Avoidance	•Emphasis on performance	No	Yes	Yes	Yes	No	Yes
	•Sharing of risks associated with MNE's success or failure	No	No	No	No	No	Yes
	•Competitive salaries to avoid poaching of staff	No (1)	Yes	Yes	Yes	Yes	Yes
	•Decentralised pay policies(2)	Yes	No	No	No	No	No
	Supported Y (Yes) Not Supported N (No) Unknown	Y = 3 N = 10	Y = 6 N = 6 Unknown = 1	Y = 6 N = 6 Unknown = 1	Y = 6 N = 6 Unknown = 1	Y = 3 N = 9 Unknown = 1	Y = 8 N = 4 Unknown = 1

Notes:(1) Increases were limited to rises recommended in the AIRC National Wage Cases (2) Taken to mean decentralised within the company High Tech Australia

At later interviews, the Company Secretary perceived:

> With the Commission and National Wage Cases, the only area which impacts is manufacturing...There's no enterprise agreement for the rest of the company...just individual contracts...That's the way we do business...We are not then fighting the bureaucratic IR process.

Another external feature that affected High Tech Australia was the nature of the industry of which it formed part. High Tech had global and regional features and had managed its multicountry operations without a specialist HR function until recently. The competition was strong, and speed to market was essential for its fast-changing customer systems needs. In addition, changing markets and economic conditions put pressure on the ways work was organised in High Tech Australia, which included a reduction in the manufacturing workforce and the introduction of cross-functional teams. Skill-based pay accompanied these developments. While the manufacturing function had a formal enterprise agreement, the MNE was not so big in Australia that individual salary setting in several occupational groups was not possible. Technology was also an internal environmental feature affecting the skill profile needed, particularly research staff. With different behaviours needed, High Tech Australia had seven different compensation systems.

Summing up, High Tech Australia was a fairly young, medium-sized company. Its compensation profile gives the impression of flexibility with various systems being used for different occupations. From the interviews, High Tech seemed to be in a compensation development phase, looking for appropriate incentives to get the desired behaviour.

High Tech Singapore

Company Background of High Tech Singapore

High Tech Singapore was a sales and service subsidiary of the corporate MNE High Tech, which commenced business in 1984 with four employees. In 1992, it had 22 staff and, at that time, had moderate competition in data communications, but faced considerable competition on the personal computing networking aspect of the business. By August 1995, the number of employees had risen to 32. It was registered as a private company. The board for High Tech Singapore included the local CEO and three Australians. High Tech Singapore mainly reported to High Tech Asia which was a publicly listed company with a regional headquarters in Singapore.

High Tech Singapore was 100 per cent owned by High Tech Asia which, in turn, was 56.25 per cent owned by the corporate High Tech MNE. In the year ending 30 June 1995, High Tech Asia made a profit of US$6.2m. High Tech Singapore had only one work site in Singapore. No manufacturing was done there as it was all carried out in Australia or Taiwan.

Organisation of High Tech Singapore

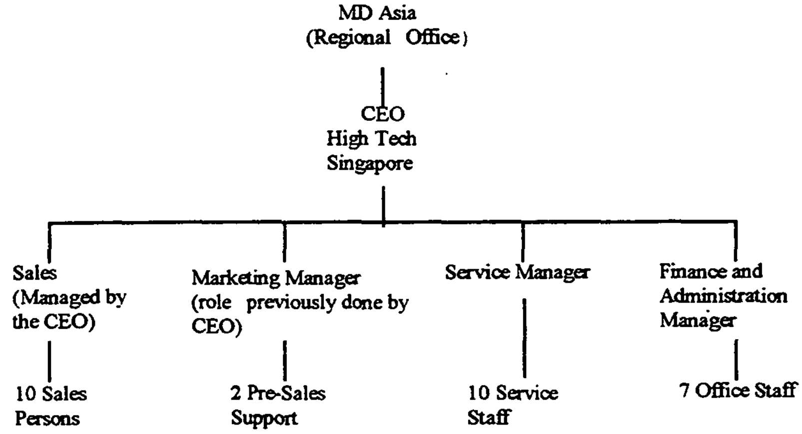
In 1992, the High Tech Singapore reporting relationship was mainly to the Hong Kong head office. According to the Singaporean executive interviewed,

> the immediate boss [was] in Hong Kong, but there [was] a dotted line back from the Hong Kong Directors in various departments to the respective heads in [High Tech] Singapore.

However, since the creation of a new regional office for High Tech Asia in Singapore, the High Tech Singapore CEO now reported to the Managing Director at the Singapore regional office. The regional office determined the affiliate CEO's salary. The two establishments were not on the same site. The High Tech Singapore's Finance and Administration Manager had most contact with the regional office in Singapore, but had occasional contact with the corporate MNE High Tech finance function for financial reporting.

High Tech Singapore's 1995 structure (almost unchanged from 1992) is shown in Figure 11.3. The major change, apart from the increase in staff numbers from 1992–95, was the introduction of a Marketing Manager. The function was originally undertaken by the CEO who was an expatriate Australian. High Tech Singapore did

Figure 11.3
Organisation Structure of High Tech Singapore as at 1995



not employ any unskilled foreign workers, but had three foreign professionals in 1995 — one from India and two from Hong Kong. No government levy was payable for these professionals. The rest of the workforce consisted of Chinese Singaporeans, with an age range of 20–44 years. In 1995, about 10 per cent of the employees had more than 5 years' service. They were 20 males and 12 females in the affiliate. The Finance and Administration Manager was the only female manager. The retirement age was 60 (previously 55, prior to legislative change).

Mission and Objectives of High Tech Singapore

Although High Tech Singapore did not have its own mission statement, it saw itself as being fairly autonomous in structure and methods. Said the CEO,

> We would talk to Hong Kong about major changes, but not Australia. Australian headquarters sometimes gives us instructions on finance, but we were told to follow the Singapore patterns.

The major objective of the subsidiary was growth by expansion into other areas. The company was judged to be competitive on price and quality, and believed it gave good service through well-trained sales staff. By 1995, quality accreditation was an important goal for all the High Tech South East Asian companies. Singapore, Hong Kong and Malaysia had all achieved ISO 9002 certification for quality, but this had not had any impact on the compensation systems.

HRM/IR Organisation in High Tech Singapore

High Tech Singapore had a business plan and a budget for the year that covered personnel costs, products, capitalisation plans and sales. The HRM philosophy was stated to be to 'provide a good working environment and benefits to keep staff happy'. The company paid according to qualifications and experience at market rates. Employee benefits were standard for everyone, but more benefits might have been offered to more experienced staff to retain them. High Tech tried to provide as much training as possible for new graduates and to retain experienced employees. Applicants for jobs were asked for their present and expected salary, and whether they would take less. After the interview, the compensation package was decided. The company had no salary structure; the essence was individual negotiation. Newcomers were placed on three months' probation and then confirmed if satisfactory. Salaries were reviewed annually in July. Because of its size, High Tech Singapore had no consultative committee. If an individual had a grievance, he or she would go to the immediate supervisor or ultimately to the CEO.

As far as the formalisation of the HR function was concerned, High Tech Singapore had a book of office procedures that was updated regularly. This covered salaries, leave, overtime and procedures for making quotations for business. The Finance and Administration Manager did the HRM administrative work, and the line managers did the selection interviews. The subsidiary was not unionised.

There was no shiftwork in the company. The official working week was 8.30 am to 5.30 pm five days per week, but in 1995, most employees were working about 10 hours per day. No overtime was paid except to the receptionist and service personnel. The junior service engineers were allowed to claim overtime for service calls because they were on a low basic wage. All staff were full-time, and casuals were only used when needed, particularly during holiday time in the administration office. Most staff in the administration office worked from 8 am to 6.30 pm and did not claim overtime unless they were asked to work extra hours on a Saturday.

Clerical Compensation in High Tech Singapore

Being a small company, the compensation systems in High Tech Singapore were relatively simple compared with those of High Tech Australia. High Tech Singapore clerical staff were paid an individually negotiated base salary that was reviewed every July in line with Consumer Price Index. The NWC guidelines were taken into account, but the salary was based on the number of hours the employee worked, and their work output. They were formally appraised each year. Hours of work were 40 per week. Clerical staff were eligible for overtime, though did not claim it, preferring to receive a bonus instead. Pay was monthly, and in addition to the base rate, the AWS (13th month) supplement was paid in December. Any extra bonus was determined on the financial results at the end of the financial year (June) and individual performance. If budget was met, the clerical staff would get a bonus of 'so many months' or a percentage of salary which was paid twice per year. In June 1992, they got half a month's salary, but sometimes, no bonus was paid. Owing to the market pressures, the company had to ensure that its pay rates were competitive. The Singaporean Civil Service received three months' bonus at the end of 1992 and this set the standard for industry. The Civil Service bonus was considered a benchmark by the staff.

No extra compensation was given for length of service. For a clerical employee with a diploma, the starting salary might be S$1000 per month, while a graduate might be offered S$2000 per month. Each clerical employee was appraised annually by the Finance and Administration Manager. It was discussed openly with the employee, and the ratings explained. Staff could write their own comments on the form, which was then passed on to the CEO, who approved any recommendation.

Marketing Compensation in High Tech Singapore

The support staff for marketing were paid in the same way as for clerical staff, namely a base salary, AWS and bonuses based on company and individual performance. The professional marketing employees had no fixed starting salary, and their compensation was based on experience, qualifications and market rates. They did not receive the 13th month supplement, but had their salaries reviewed each July and could be awarded a bonus based on individual and company performance. The package was decided by the affiliate's CEO.

Service Compensation in High Tech Singapore

The service manager negotiated salaries with recruits to his department and he, in turn, sought the CEO's final approval. Service staff in High Tech Singapore installed the systems and attended to breakdowns and problems. They were paid on the same basis as for the clerical employees, namely a base salary, AWS supplement in December, and bonuses based on the company and individual performance.

Sales Compensation in High Tech Singapore

The High Tech Singapore sales staff received a base salary, but no AWS bonus. Instead, they received a bonus expressed as a percentage of salary based on a pre-determined sales quota. There was no restriction on the sales that could be made. When the quota was met, the sales people would receive a base increase of between 2 and 5 per cent. Once they sold above quota, they could double the commission based on the gross profit from the sale. According to the executive interviewed, the intention of the CEO was to make the salespersons 'aware of the profit on the sale and not to reduce price just to obtain a sale'.

Managerial Compensation in High Tech Singapore

In 1992, High Tech Singapore had three managers (the Country Manager [Singaporean CEO], Service Manager and Finance and Administration Manager) who received a base salary, the AWS bonus, and a performance bonus based on the Singaporean company performance. The performance bonuses were based on the quarterly results. Usually the Service Manager and Finance and Administrative Manager got between 20 and 30 per cent of their basic pay as bonus. If targets were not met, no bonus pay was given.

By 1995, there were four staff on separate managerial packages — the Service Manager, the Marketing Manager, the Finance and Administration Manager and the CEO. The Service Manager was the only staff member with individually set objectives as at 1992. This was because he had to generate his own revenue to cover his department's costs. His objectives were agreed by the CEO. His package was therefore a base salary plus the AWS (13th month) plus a percentage of salary bonus if objectives were exceeded. This bonus was paid quarterly. By 1995, all four managers had objectives set for them. The High Tech Singapore CEO assessed the package of the Finance and Administration Manager in conjunction with the Finance Director of the High Tech Asia regional office in Singapore. The Finance and Administration Manager was paid a base rate plus the AWS (13th month), and mid-year bonus in 1992. By 1995, objectives were set for her that had a fixed bonus attached set to them. The Service Manager continued to have set objectives and had compensation reviewed by the affiliate's CEO and the regional Customer Service Director. Similarly, the Marketing Manager was reviewed by the High Tech Singapore CEO and the regional Marketing Director. If sales targets were met, the managers could receive a 20 per cent bonus. If qualitative objectives were achieved as well, another 10 per cent would be added.

In 1992, the CEO's compensation package was determined by Hong Kong head office (High Tech Asia), but by 1995, the Singapore regional office took over this responsibility. His compensation was performance-based. He received 3 per cent of salary if the sales objectives were met and another 20 per cent on meeting the qualitative objectives that were set for him. The corporate MNE High Tech executive interviewed stated that although the Singaporean CEO's compensation was reviewed in Asia, this was 'grandfathered' by the corporate MNE Chairman in Australia.

With regard to the compensation for all employees, no profit-sharing scheme was provided. Compensation was confidential, but employees might 'talk among themselves', according to a manager. There was a strong emphasis on performance in the determination of the base salary and bonuses. A formal appraisal (traits based) scheme operated, and seniority was acknowledged by a company gift after 5 years' service. To assess its general levels of salary in relation to the labour market, the subsidiary used the survey data from the Singapore National Employers' Federation (SNEF). However, the company was not a member of the SNEF and or any other employer association. Company staff looked at newspaper advertisements and used consultants to search for new staff when needed. The consultants would indicate the appropriate salary range. No changes in pay structures were planned for the future.

Employee Benefits in High Tech Singapore

In High Tech Singapore, there were common employee benefits for all grades of employees. These were:

- Annual leave (with extra after 5 years service to maximum of 20 days)
- Compassionate leave (usually 3 days)
- Death benefit
- Dental treatment subsidies
- Educational reimbursement for relevant programmes
- Festive loan/advance
- Fixed allowance for optical problems
- Free medical treatment and drugs
- Hospital ward benefit
- Long service award
- Marriage leave
- Maternity leave
- Meal allowance, where appropriate
- Paid sick leave
- Personal insurance (multiple of salary)
- Reimbursement of business entertainment expenses
- Specialists surgical fee
- Unpaid leave.

Only High Tech Singapore's CEO was provided with a car and a contribution towards housing costs. The clerical, administrative, and technical employees received a fixed monthly transport allowance, while the sales and service personnel were reimbursed for the use of their own vehicles. The CEO was allowed a budget for club memberships and he, together with the sales and service staff and other managers, had the use of mobile telephones. An employees' social club that arranged bowling, tennis, golf and entertainment functions, started in 1992. The complete list of benefits is provided in Table 11.9.

Relationship of High Tech Singapore to Corporate Head Office

As mentioned earlier, the compensation for the CEO for Asia was finally decided by the MNE's Board Remuneration Committee. Apart from this, even though there were three Australians on its board, the corporate MNE head office did not become involved in the compensation design for the Singaporean local staff. Nor (prior to 1995) did the High Tech (Asia) Hong Kong regional office have a role in determining the non-management salary levels in High Tech Singapore, as these were set locally. Only the Singaporean CEO's salary was approved by Hong Kong, as this office would decide all Asian country managers' salaries. It was anticipated in 1992 that the Hong Kong headquarters would eventually divide into two: North and South Asia with Singapore, Malaysia and Thailand forming part of the southern group. There was a plan for a Manager or Regional Director in Malaysia to control this group. He or she would negotiate pay for the relevant country managers only. The salaries for the rest of the staff were the responsibility of the country manager. No manufacturing was carried out in Hong Kong, but it was responsible for sourcing suppliers from Taiwan and other countries.

With the reorganisation in 1995 and the transfer of the regional office of High Tech (Asia) to Singapore, this regional office now determined the salary package of the Singaporean subsidiary's CEO. Compensation and salary changes of other staff had now to be approved by the financial and other directors in the Singapore regional office. This meant that the corporate MNE High Tech had little involvement in compensation at subsidiary level except at the managerial levels as discussed above. This was confirmed by the corporate MNE High Tech Company Secretary, who said 'Australia does not interfere with the Singaporean structures at all'. In 1992, the Asian companies were administered by Hong Kong. The Hong Kong Chief Administrative Officer travelled a lot to Singapore and Kuala Lumpur. He might have

Table 11.9
Employee Benefits Profile for High Tech Singapore as at 1995

	Industrial/ Blue Collar Unskilled	Skilled	Clerical/ Admin	Sales/ Technical	Professional/ Management	Board
Acting allowance	NO STAFF IN					
Annual leave	THESE CATEGORIES		✓	✓	✓	
Attendance allowance						
Business entertainment expenses			✓	✓	✓	
Cellular phones				✓	✓	
Co-operative shares						
Compassionate leave			✓	✓	✓	
Death benefit			✓	✓	✓	
Dental treatment			✓	✓	✓	
Early retirement schemes						
External/social recreational club membership						
Festive loan/advance			✓	✓	✓	
Fixed monthly transport allowance			✓	✓		
Free medical treatment/medicine			✓	✓	✓	
Funeral leave benefit						
Hospital ward benefit			✓	✓	✓	
Housing loan						
Housing renovation loan						
Laundry benefit						
Life insurance			✓	✓	✓	
Long service award			✓	✓	✓	
Long-term illness			✓	✓	✓	
Machine allowance						
Marriage leave			✓	✓	✓	
Maternity leave			✓	✓	✓	
Meal allowance			✓	✓	✓	
Medically board-out benefit						
Other loans						
Paternity leave						
Provision of car					✓(1)	
Reimbursement for use of own car on company business				✓		
Retirement benefit (>CPF) [Singapore]						
Retrenchment benefit			✓	✓	✓	
Service benefit						
Shift allowance						
Sick leave			✓	✓	✓	
Specialist surgical fee			✓	✓	✓	
Study leave/benefit			✓(2)	✓(2)	✓(2)	
Transport benefit/allowance/ reimbursement			✓	✓	✓	
Uniform						
Union day leave						
Union education leave						
Unpaid leave			✓	✓	✓	
Voluntary resignation benefit						

Notes:
(1) CEO only. (2) Relevant to job.

imposed some relativities in compensation during these visits, but it was acknowledged that there were very different labour markets in each country. The salary rates in Hong Kong, for example, were very high, whereas the levels in Thailand were very low. The scene was therefore hard to regulate centrally. The Singaporean CEO likewise suggested that:

> The main control from the [Australian] Head Office is through reports and budgets. It is not interested in pay systems and only requires declarations when necessary for Australian Stock Exchange purposes.

The Profile of High Tech Singapore Compensation

The Gomez-Mejia and Balkin (1992:61) Experiential and Algorithmic Compensation Patterns for High Tech Singapore were shown in Tables 11.3 to 11.5, and 11.7. The High Tech Singapore **clerical** and **technical** service staff (Tables 11.3 and 11.5) were paid on the same basis on an individual contract, mainly on skills (for clerical staff) and job (for the technical staff). However, in general, both the High Tech Singapore technical service and clerical compensation systems were a balance of Algorithmic and Experiential features.

The **sales** employees (Table 11.4) differed by being paid a base rate and commission. Their package, therefore, had a strong emphasis on performance, a short-term orientation, and a risk element. The profile thus had more Experiential characteristics than Algorithmic ones. Finally, **management** (Table 11.7) was paid by base salary and a bonus based on objectives. While some compensation would be for the job size, the criteria for increases were mainly performance leading to a stronger Experiential pattern for management salaries.

High Tech Singapore Compensation and the External Environment

In assessing the four questions on the effect of the external environment on compensation design in order, neither the High Tech Singapore CEO or the Finance and Administrative Manager perceived any main constraint on compensation design from legislation in Singapore. The provisions of the Employment Act set a benchmark, but there was no equal pay legislation or limits on ceilings. The CEO continued:

> The Employment Act does not say how much to pay...what level. Equal pay is not an issue... With income tax, when we think about a salary structure, we don't take this into account. In larger companies, say with a factory, they have to follow the Employment Act and the NWC

> guidelines closely, but in smaller companies, it is more the company policy, rather than the national policy that predominates.

By contrast, the Singaporean economy and the tight labour market were problematic. The CEO stated:

> We have to be creative to keep and attract people. The policy is to have certain guidelines followed by all [High Tech] companies. For example, one individual wanted guaranteed commission. Therefore, we had to adapt to get him. He became the best salesman. Therefore, we had to adapt to the tight labour market to keep him. It's not necessarily the amount of money. Car parking fees can be important to some people.

The Finance and Administrative Manager agreed that:

> The tight labour market affects the quality of staff. We have to pay premium salaries even for inexperienced and average performers...most of them are young.

The salary market rates were reviewed regularly to ensure that salaries in High Tech were competitive, because, according to the Financial and Administrative manager, it was very easy to fall behind. The market was seen as very important. With the Singapore incomes policy and NWC recommendations, neither High Tech managers considered the NWC recommendations to have much impact on the company. The view was that the affiliate had to adhere to market pressures and pay the AWS (13th month) to some categories as it was expected. According to the Finance and Administrative Manager,

> If the Government is giving three months' bonus at the end of the year, this sets the standard and is considered a benchmark for industry...It's also seen by the staff, but they know they are better off in the private sector.

Annual reviews were mainly based on market movements as well as performance. In 1992, the annual rises were about 7 per cent. She then added:

> But if a person was productive, then we would give him or her 10 or 11 per cent.

With the Singaporean focus on a skilled workforce, the two managers were asked about the cultural attitude towards education and its effect on the company. The High Tech Singapore CEO stated that:

> People pick up paper qualifications but it's up to the company to take advantage of an individual's work in getting it. You have to take advantage of the extra skills, and if there is no recognition, a person will leave in a tight labour market. If an employee can be compensated for a cost of a course, they may stay. A qualification is not enough to demand more money...say an MBA...At lower levels, there may be more pressure to give salary increases for qualifications...a girl clerk with [General Certificate of Education] 'O' [Ordinary] levels would get about [S]$850 per month. If she does a secretarial course, she may want $950 per month. This is significant to them...the amount.

The Finance and Administrative Manager disagreed to an extent in that she did not see any direct link of pay to qualifications, but noted that more qualified people were 'more marketable'.

With Singapore culture generally and its attitude towards money, the CEO initially compared Singapore with Australia.

> In this [Singaporean] culture, it is not accepted that a person does not work. Unlike Australia, they do not wait around for the 'right job'. In Singapore, this would not be accepted. If an engineering graduate could not find an engineering job, then he[or she] might go into a pizza operation or a lowly technical job in a manufacturing environment. They then better themselves. The culture is that you must work. You are a contributor to the family. You are not privileged just because you have a piece of paper — you have an obligation to pay your parents back. All adolescents will stay with parents until they are married. They may stay with parents after they are married...is common...until they can afford to have their own apartment...There is an obligation to parents..

According to the Finance and Administration Manager,

> The Chinese are more responsive to bonuses and incentives than the Malays. The Malays will not stretch for extra bonuses...[Singaporean] children must look after their parents...Children are an investment. Therefore they must repay their parents and look after them, but Singapore is becoming more Westernised...children are not an investment.

The CEO continued that 'companies which are Chinese prefer to work with Chinese rather than Malays or Malay Muslims. Malays had a more 9–5 mentality'. There were no Malays working at High Tech Singapore. On another aspect of national culture, the CEO did not perceive any definite trend towards an independent or team culture in Singapore.

The High Tech Singapore compensation, compared against the Hodgetts and Luthans (1993b) recommendations for pay in Singapore for the cultural dimensions as found by Hofstede (1980), is shown in Table 11.10 below. Because of the lack of data on the actual salaries paid, it was not possible to conclude whether the range between lowest paid and the highest in the company conformed to the high Power Distance in Singapore (Hofstede, 1980). However, managers were paid on a different system and had different employee benefits although the pay hierarchy was not formalised. The emphasis on individual performance in the company also did not 'fit' Singapore's low Individualism (Hofstede, 1980). There were some group incentives, but pay for length of service was not acknowledged. The 'cultural match' was stronger for the weak Uncertainty Avoidance in Singapore where Hodgetts and Luthans (1993b) recommended that the compensation strategy should be more linked to performance,

Table 11.10

The Hodgetts and Luthans (H&L) Recommendations for Compensation in Singapore as Reflected in High Tech Singapore

Hofstede Dimension Index	H&L Recommended Compensation	Clerical & Admin Staff Compensation	Marketing (Prof) Compensation	Service Staff Compensation	Sales Compensation	Managerial Compensation
1. High Power Distances	•Hierarchical compensation strategy •Pay and benefits tied to place in structure •Large salary gaps between lowest and highest paid	No - not formal Yes for pay and benefits in company Unknown	No - not formal Yes Unknown	No - not formal Yes Unknown	No - not formal Yes Unknown	No - not formal Yes Unknown
2. Low Individualism	•Group compensation plans •Seniority based pay	Partly yes, but individual PA [1] too No	Yes No	Yes No	No No	No No
3. Moderately low Masculinity	•Many family benefits •Quality of worklife emphasis •No gender pay differences	No No Yes	No No Yes	No No Yes	No No Yes	No No Yes
4. Weak Uncertainty Avoidance	•Emphasis on performance •Sharing of risks associated with MNE's success or failure •Competitive salaries to avoid poaching of staff •Decentralised pay policies[4]	Yes Yes, profit share Yes No	Yes Yes Yes No	Yes Yes Yes No	Yes No[2] Yes No	Yes Yes[3] Yes No
	Supported Y (Yes) Not Supported N (No) Partly Yes(PY) Unknown	Y = 5 N = 5 PY = 1 Unknown = 1	Y = 6 N = 5 Unknown = 1	Y = 6 N = 5 Unknown = 1	Y = 4 N = 7 Unknown = 1	Y = 5 N = 6 Unknown = 1

Notes: (1) PA is an abbreviation for performance appraisal.**(2)** Did not receive AWS group bonus **(3)** Did not receive AWS group bonus, but individual objectives were closely linked to the success of the subsidiary **(4)** Taken to mean decentralised within the High Tech Singapore subsidiary and that the local management should share in the risks associated with the success or failure of the affiliate. On the other hand, the moderately low Masculinity of the Singaporean culture was not well reflected in the pay systems of High Tech Singapore in that there were few family-friendly employee benefits, and little overt evidence of an emphasis on quality of worklife issues. In general, there was not full support for Hodgetts and Luthans (1993b) recommendations in any of the five compensation systems studied.

Regarding other external variables affecting compensation, like its parent, High Tech Singapore was regionally focused and was subject to varying degrees of competition according to product and changing technology. The internal organisation, work roles and compensation systems of the subsidiary were flexible and adaptable, as might be expected in such a small operation.

Differences and Similarities in High Tech Australia and High Tech Singapore Compensation

The main differences and similarities of compensation systems in High Tech Australia and High Tech Singapore are shown in Table 11.11.

Table 11.11
Comparison of Compensation Systems in High Tech Australia and High Tech Singapore

High Tech Australia	High Tech Singapore
General Organisational Features	
Medium sized	Small
Batch assembly manufacturing	Service and sales only
HR Specialist at head office	No HR specialist
Unionised in some areas	Non-unionised
General Compensation Features	
Heavy emphasis on individually set salaries	Heavy emphasis on individually set salaries
Underpinning by awards for some jobs	No underpinning mechanism
Plant enterprise agreement for manufacturing	No collective agreements
Recent job evaluation for middle management	No use of job evaluation
Industrial Compensation	
Algorithmic (9A*; 5E*; 2 unknown; 3 not applicable)	**No industrial staff employed in High Tech Singapore**
AIRC ratified enterprise agreement	
Skill-based structure	
Share of profits bonus	
General rises in line with AIRC NWC decisions	
H&L** recommendations 3 yes; 10 no	

High Tech Australia	High Tech Singapore

Clerical Compensation

Algorithmic (11A*; 5E*; 2 unknown; 1 not applicable) Skill and individual negotiation basis Informal system (above award rates) Underpinned by awards Merit increases linked to performance appraisal No recognition for length of service No share of profits bonus H&L** recommendations? 6 yes; 6 no; 1 unknown	Balance of Algorithmic and Experiential (7A*;8E* 1 A/E*; 2unknown; 1 not applicable) Skill and individual negotiation Informal system No underpinning mechanism Performance appraisal linked to annual review No recognition for length of service AWS plus share of profits H&L** recommendations? 5 yes; 5 no; 1 partly yes; 1 unknown

Sales Staff Compensation

Balance of Algorithmic and Experiential (7A*;6E* 3 A/E*; 2 unknown; 1 not applicable) Job and individual negotiation Base salary and commission for meeting sales targets Performance pay and annual review of base H&L** recommendations? 6 yes; 6 no; 1 unknown	Experiential (5A*; 10E*; 2 unknown; 2 not applicable) Job and individual negotiation Base salary and percentage for sales quota Performance pay and annual review of base H&L** recommendations? 4 yes; 7 no; 1 unknown

Technical Service Staff Compensation

Algorithmic (9A*; 4E*; 2A/E*; 3 unknown; 1 not applicable) Mixture of job and skills basis Clear career progression Individual performance element Structure underpinned by award H&L** recommendations? 6 yes; 6 no; 1 unknown.	Balance of Algorithmic and Experiential (8A*; 7E; 1A/E*; 2unknown; 1 not applicable) Job-based, but arguably combined with skill No clear career progression Individual and company bonus No underpinning by legal standard H&L** recommendations? 6 yes; 5 no; 1 unknown.

Research Staff Compensation

Algorithmic (10A*; 4E*; 2 unknown; 3 not applicable) Individually negotiated packages based on skill No performance evaluation Progression mainly on length of service No variable pay No salary structure H&L** recommendations? 3 yes; 9 no; 1 unknown	**No research staff employed in High Tech Singapore**

High Tech Australia	High Tech Singapore

Managerial Staff Compensation***

Balance of Algorithmic and Experiential (8A*; 9E*; 2 unknown)	Experiential (7A*; 10E*; 2 unknown)
Job-based system with formal evaluation after 1995 for middle managers	Job-based system, but no evaluation
No formal performance appraisal, but review against objectives	Formal performance appraisal against targets
Annual review of base salaries against market rates or inflation	No regular review of base salary
Potentially high individual and profit-share bonuses for some	Potentially high individual bonuses
Comparable pay arrangement	Market and objectives driven
Centralised to head office	Regional office and subsidiary driven
H&L** recommendations? 8 yes; 4 no; 1 unknown	H&L** recommendations? 5 yes; 6 no; 1 unknown.

Notes:* A is Algorithmic. E is Experiential. A/E is Algorithmic/Experiential. As used in the Gomez-Mejia and Balkin (1992:61) Summary Profile of Experiential and Algorithmic Compensation Paterns.
** H&L is Hodgetts and Luthans (1993b) *** Excludes High Tech Australia non-executive directors

Table 11.11 indicates is the total number of Algorithmic and Experiential elements for each of the compensation systems in High Tech Australia and Singapore extracted from Tables 11.2–11.7. To ensure a more overall valid comparison of the Algorithmic (A) and Experiential (E) patterns in the Australian and Singaporean operations, the comparison can be restricted to only those *common* compensation elements for which data were available and applicable in both subsidiaries. The results are shown in Table 11.12.

Table 11.12
Total of Algorithmic (A) and Experiential (E) Compensation Features for High Tech Australia and High Tech Singapore as at 1995 – Selected Common Elements Only

Number of Algorithmic(A)/Experiential(E) Features						
	High Tech Australia			High Tech Singapore		
Clerical	11 A	5 E	0 A/E	7 A	8 E	1 A/E
Sales	6 A	6 E	3 A/E	5 A	10 E	0 A/E
Technical	9A	4E	2A/E	8A	7E	0 A/E
Managerial	8 A	9 E	0 A/E	7 A	10 E	0 A/E

Restricting the Algorithmic and Experiential classifications only to those selected common features for which data were available and applicable, Table 11.12 shows that there were overall Algorithmic compensation profiles for the clerical and technical service staff in High Tech Australia, and a balance of Algorithmic and Experiential elements for the sales and managerial employees in High Tech Australia, and the clerical and technical service staff in High Tech Singapore. The profile for sales employees and managers in High Tech Singapore was Experiential. All general profiles for compensation systems for High Tech Australia and High Tech Singapore given in Table 11.12 are therefore similar to those in Table 11.11 and will be referred to again later in the study.

In the context of the four research questions relating to the effect of external environmental factors on subsidiary compensation design, like the other companies discussed so far, both High Tech Australia and High Tech Singapore observed the local legal environment requirements in which they operated. In the Australian company's case, according to the manager interviewed, it was always conscious of the award system. Equal pay was built into its pay systems; employee benefits had to be adapted to account for Fringe Benefits Tax and superannuation legislation, and its incorporation into awards forced the unit to include this in its compensation packages as well. High Tech Singapore was similarly conscious of the provisions of the Employment Act, which provided the minima for its conditions for the lower paid staff. It also followed the custom of paying the AWS (13th month) bonus to the majority of its staff.

The economic environment did not affect compensation design in either company in direct terms. Again, the great difference in the tightness of the labour markets was evident. Both subsidiaries made efforts to ensure that their rates were in line with the markets, but during the recession, High Tech Australia reduced upper level salaries for survival purposes. Both had flexible systems that could adapt easily to market levels, and neither paid increases directly linked to the Consumer Price Index (CPI). However, the reactions of High Tech Australia and High Tech Singapore to the decisions of the AIRC NWC recommendations and the Singaporean NWC guidelines varied. In Australia, the company had to decide its policy about the compensation for lower-level employees who came within the ambit of union representation and award coverage. High Tech Australia recognised a union in the manufacturing function and became a party to the relevant federal award. Having decided on this course, it had no choice but to follow this agreement and pay AIRC NWC increases, but it supplemented the rates with over-award payments in any case.

The compensation systems for High Tech Singapore were not constrained in the same way, and the system was based more on individual negotiation, with rises based on CPI, individual and business unit performance as well as labour market levels. Nevertheless, the Singaporean affiliate was following the NWC request to maintain a certain proportion of variable pay in the general packages in case of economic downturns. Both companies were thus similar in keeping their structures flexible, with rises determined by their own local policies.

Neither High Tech Australia nor High Tech Singapore had a specialised HRM function up to 1995. Administration of compensation was split between several roles. Both units were similar in having several different pay systems, but both appeared to share a culture of pay-for-performance, especially at more senior levels and for sales roles, and no financial recognition for length of service. Neither was planning to move to any formal job evaluation system as at 1995, but since then, High Tech Australia had introduced job evaluation for its middle managerial staff.

The interviewees from High Tech Australia and High Tech Singapore did not cite national culture as having a direct effect on general compensation design, although they noted national differences with regard to the effect of pay on motivation and the size of differences in compensation between occupational levels. The lack of data on compensation levels did not allow any conclusion to be drawn on Power Distance in either society. However, the use of incentives for some jobs in the Australian company conformed with recommendations for compensation in a high Individualism and a moderately weak Uncertainty Avoidance culture (Hofstede, 1980). While the compensation in High Tech Singapore had features that conformed with the recommended profile of Hodgetts and Luthans (1993b), the individual pay-for-performance for some occupations did not sit well with low Individualism, but was appropriate for weak Uncertainty Avoidance. In neither High Tech Australia nor High Tech Singapore was there a wide range of family-friendly benefits. It could thus be argued that the need to generate certain behaviour through the pay system was again more dominant than conformity to the national culture in general.

The other difference between the Singaporean affiliate and the Australian manufacturing plant alongside the High Tech head office was the effect of the respective industrial relations systems. A union was recognised in Australia for the purpose of negotiating an enterprise agreement for technicians, which led to a more skill-based compensation structure. This enterprise agreement severed the direct link with national industrial award rises. The agreement was still subject to the final approval of the federal industrial tribunal, and the compensation design was in line with the national recommendations for skill-based pay systems. For other occupations in the Australian operation such as clerks and salespeople, the state awards automatically set the minimum conditions which it had to meet. Industrial tribunal decisions affecting the rates and structures of each state award were noted by High Tech Australia, but the company paid above these award rates for clerical, sales and service personnel, and had designed its own supplementary systems for sales and service employees.

High Tech Singapore was owned by High Tech (Asia), and the regional office had a bigger role in compensation determination than did the MNE head office. One factor in common, however, was the interest of the High Tech head office in the approval of top managerial compensation by the Remuneration Committee. There was more involvement by the Australian head office in the structure of compensation for other employees in Australia, whereas the Singaporean staff below Director level appeared of little concern to the head office Company Secretary/Chief Financial Officer. Thus the head office had a more ethnocentric orientation towards director remuneration, but a more regiocentric and polycentric orientation approach towards other compensation systems.

In comparing the employee benefits for the clerical, service, sales and managerial staff, the following benefits were common to these categories of staff in both High Tech Australia and High Tech Singapore:

- Annual leave
- Business entertainment expenses
- Compassionate leave
- CPF (in Singapore) and superannuation (in Australia)
- Life or disability insurance
- Long service awards
- Long-term illness cover
- Maternity leave

- Meal allowances (overtime)
- Provision of cars (for senior staff)
- Public holidays
- Reimbursement for use of own car
- Retrenchment benefit
- Sick leave
- Study leave/benefit
- Transport allowances/reimbursement
- Unpaid leave (usually case by case).

The differences were mainly the result of the different health systems in Singapore. High Tech Singapore paid the premiums for hospital, surgeon's fees, medical, optical and dental cover for all levels of its staff, and had a provision for Festive Loans — a common employee benefit in Singapore. Having some industrial employees, High Tech Australia issued uniforms to staff and paid for their laundering. Paternity leave was available and a social club established. The awards underpinning the clerical and sales employees in Australia also had adoption leave, amenities, and jury service make-up pay entitlements. In both organisations, there were unique benefits for senior management. Only the CEO in Singapore was entitled to a car, and only the senior managers in the Australian head office and plant had access to company shares.

In comparing the employee benefits, High Tech Australia was subject to more external regulation for lower-level staff in that federal and state awards were used to set the basic levels of benefit. However, it had more freedom at higher levels. In Singapore, apart from the requirements of the Employment Act, the company could have determined its own benefits in the light of external conditions. Both units offered different benefits at various levels of their organisations. The differences were the result of the local environment, especially national health services. There did not appear to be any major involvement of the corporate MNE High Tech in the design of benefit packages of the Singaporean affiliate.

Conclusion

In analysing this final case study in relation to the others so far described, it is evident that there is replication of findings over the five cases. Like the other cases, High Tech Australia and High Tech Singapore had more than one compensation system. The systems varied mainly by occupation, but could also vary by individual. The external environment affected each occupational reward in different ways. Some environmental elements left management little choice in compensation design — others permitted much more discretion.

Taking the four research questions in turn, employment rules, regulations and awards had an impact across all compensation systems or affected selected occupations only. Legislation like equal pay, superannuation, FBT and CPF was in the first category in High Tech; award rates and industrial relations legislation were in the second. Governments' policies are implemented through legislation and High Tech Australia reacted to changes in Australian laws on the permitted outcomes of collective bargaining and AIRC recommendations by adopting new compensation approaches for its technicians in a similar fashion to that of Oilco Australia and Buildo Australia. In addition, the movement to a skill-based structure facilitated the development of a team-based production system. The change of the industrial external environment clearly changed the technical compensation system. High Tech Australia's pay exceeded any minima of the award system, and High Tech Singapore observed relvant provisions of the Employment Act — choices made by all case study companies because of occupational labour market pressures. Australian Government FBT and superannuation legislation caused all Australian subsidiaries and companies to review their employee benefits, and in all Singaporean cases (including High Tech Singapore), the Singaporean Government's national health policy affected the employer's provision of health benefits. Thus the impact of legislation is a function of its range and applicability.

Like the other cases, the state of the national economy was more influential in the level of pay rather the actual design. The general labour market is affected by the rate of inflation, economic growth and of unemployment. High Tech Australia was unique in the five Australian cases in adopting a deliberate strategy of salary reduction for a period because of its lack of capacity to maintain the then existing levels. Apart from this, occupational levels were determined in line with AIRC increases, labour market rates, AIRC NWC rises (in some cases), and, more recently, individual performance. The occupational labour market rates were also major factors in the setting of pay levels in the Singaporean affiliates, including High Tech Singapore. However, above average pay or employee benefit provision may also be part of a strategy to appear paternalistic or to exclude unions.

The role of government in economic management is reflected in fiscal, monetary and welfare policies, and evident in the supply of labour through population, immigration, use of foreign workers and education policies. Apart from the FBT and CPF already mentioned, fiscal and monetary policies did not appear to play a major role in MNE subsidiary compensation design in all case study companies including High Tech, except where expatriate compensation packages took host country income tax into account, or where consideration was given to 'salary sacrifice' schemes to minimise tax for executives in Australia. High Tech Singapore employed professional foreign labour without a government levy, but although Foodco Singapore, Buildo Singapore, and Metalco Singapore utilised less skilled staff and thus lower pay scales, benefits were partially offset by foreign labour levies. Intertwined with economic management is the role of industrial tribunals, AIRC National Wage Cases and the National Wages Council whose recommendations are partly based on the state of the macro economy. However, it is obvious that the MNEs could accept or reject the recommendations according to overall compensation strategy. High Tech Australia granted increases awarded by the AIRC to lower level staff and followed its principles for an enterprise agreement. High Tech Singapore did not consider the NWC recommendations to have much impact on the company.

Like the other case studies, no manager in the High Tech company and subsidiary stated specifically that national culture and religion were taken into account when compensation was designed. Comments on national differences were made, especially on differences in international pay levels and intra-subsidiary relativities, but it is perhaps not surprising that a complex concept like national culture could not be immediately related to elements of a compensation system by interviewees. Arguably the emphasis on performance pay for top managerial positions in High Tech was more to do with High Tech's internal culture, and the differences in salaries between Australia, Singapore and Hong Kong more to do with labour market comparisons as well as possible national cultural differences. The testing of the Hodgetts and Luthans (1993b) recommendations for compensation design in High Tech Australia and High Tech Singapore was again inconclusive. Only the compensation for the High Tech Australia managerial employees followed the recommendations to a significant degree. There was, in fact, more conformity of all Australian case companies' managerial systems with the recommendations than with other occupations. Only for the operating and industrial staff of all Singaporean subsidiaries did all compensation systems uniformly support the Hodgetts and Luthans recommendations for the Hofstede (1980) dimensions of Singaporean culture. For the other occupations of the Singaporean affiliates, the results were more mixed.

Only High Tech Australia had unionised employees and so the company had a collective agreement. Like the other unionised workforces of the case study companies, once the MNE recognises unions, the local industrial awards, rules and industrial tribunals procedures applied. However, union influence was confined to only those who were subject to collective agreements in both countries, but these MNE agreements were similar to agreements of other locally owned Australian or Singaporean companies, and did not contain any features overtly transferred from the MNE head office.

The High Tech company and affiliate benefit profiles were similar to those of the other case MNE subsidiaries in that there were many common employee benefits between the two countries. The subsidiaries had some discretion in the benefits offered, but may be constrained by the corporate culture of the MNE and award system in Australia and Employment Act in Singapore. The effect of the different health systems was again apparent in its influence on benefit provision. As in the other MNEs, there were differences in the benefits given to different levels of employee.

In the other case studies, we have acknowledged that industrial characteristics like type of business, competition, and rate of change could put pressure on internal variables including the compensation systems. The nature of work in High Tech Australia influenced its occupational structure and the number of pay systems. The development of team approaches to manufacturing was arguably a response to the need for cost reduction, speed to customer and upskilling of the workforce.

The role of the MNE corporate head office in compensation design has varied in each case. The High Tech case differs in that the parent head office and manufacturing facility were used for comparison with the sales and service affiliate in Singapore. However, the similarity with some other cases was the greater involvement of the

High Tech head office in the development of performance indicators for, and approval of, top managers' local and expatriate compensation across the world. Nevertheless, High Tech had no cross-national salary structure like that of Oilco and Metalco. The head office therefore had a both ethnocentric and polycentric approach to compensation design. Like Foodco Singapore, Buildo Singapore and Metalco Singapore, the regional office was given certain responsibility for approval of, or advice on, compensation for certain staff. This delegation may be a function of the location and size of the human resource function as it was only in recent years that that High Tech Australia had a full-time professional Human Resources Manager. High Tech Singapore had a high degree of autonomy as the main linkage with head office was through financial controls. The corporate MNE High Tech therefore displayed both integration and differentiation with a high degree of adaptation to local conditions. In an explanation of the effect of the external environment on MNE pay systems, the role of the corporate, regional, and national offices needs inclusion.

Finally, using the Gomez-Mejia and Balkin (1992) Experiential and Algorithmic Compensation Patterns, apart from Oilco, no pairs of subsidiaries and companies in Australia and Singapore had similar patterns. In general, all Singaporean pay systems had more Experiential features than did all Australian-based operations. This suggests that there may be national environmental features that affect all pay systems in the same way and that MNEs are prepared to adapt their compensation to these. However, there were intra-subsidiary variations as well, which suggests that the external environment is not the sole determinant of compensation design and that management in a host or home country has a range of discretion for design.

CHAPTER TWELVE

FINDINGS FROM THE CASE STUDIES

Overview of the Thesis

The overall focus for the thesis has been to investigate the influence of attributes of the external environment on the compensation system of an MNE subsidiary. It sought to do this by first examining the literature on the strategic links with, and external influences on, compensation in domestic organisations in Chapter 2, and the research on MNE compensation in Chapter 3. Chapters 5 and 6 considered features of the Singaporean and Australian national economies and societies where the MNE subsidiaries and companies of the case studies were based, and then described the compensation systems of the five pairs of MNE affiliates and companies. Similarities and differences in the respective compensation systems were found, and the conclusions of each case study chapter showed replication of findings about the extent to which compensation design could be attributed to the external environment. As inter-unit linkages were seen as a SIHRM issue in the Schuler, Dowling and De Cieri (1993) integrative framework of SIHRM, the roles of MNE regional and head offices were also commented on in relation to the integration and differentiation of compensation systems across an MNE.

The Guiding Research Questions

The central guiding research question for consideration in the thesis was '**How does the external environment of an MNE subsidiary influence the design of its compensation system?**' Flowing from this, four initial research questions were:

- **How does employment legislation affect the compensation design of an MNE subsidiary?**
- **How does the economy affect the compensation design of an MNE subsidiary?**
- **How does national culture affect the compensation design of an MNE subsidiary?**

- **How does the industrial relations system affect the compensation design of an MNE subsidiary?**

It was acknowledged early in the thesis that the attributes of an organisation's external environment are largely interdependent, but that they can be separated for simplicity (Jackson & Schuler, 1995). The elements of the environment chosen for study can also be criticised for their 'heuristic' rather than 'systematic' character (Pieper, 1990a:20). It was accepted that it is 'impossible to rigorously determine the impact of each variable and its interaction with others' (Frenkel, 1993:8), and it is difficult to control variables in cross-cultural research (De Cieri & Dowling, 1995), although this has not prevented writers from attributing trends in compensation systems to major changes in the external environment (Schuster & Zingheim, 1992).

Literature relevant to the research question was reviewed in Chapters 2 and 3 from which it was first recognised that an MNE subsidiary was an open system and therefore subject to external influences. In fact, this has long been the accepted position for general HRM policy and practice, although this is not to deny the importance of internal factors as well (Jackson & Schuler, 1995). According to the framework of Schuler, Dowling and De Cieri (1993), compared with a domestic organisation, the MNE generates unique conceptual and theoretical issues in its management of the external environment. First, the environments for the MNE are likely to be more diverse and the competition international and possibly global. MNEs have their business units spread geographically so that the management challenge is to manage globally and locally at the same time to meet the strategic needs of the business (p.719). The other unique element of the MNE is the importance of the inter-unit linkages to coordinate the diffused affiliates. Each of these subsidiaries has to operate within its own local environment and is thus subject to the host country's 'laws, politics, culture, economy and society' while being mindful of the competitive strategy of the subsidiary and the whole MNE (p.723). But is this a simple interaction? It could be argued that the extent of the impact of the local environment on the affiliate would depend on the degree of autonomy from the MNE head office and the international HRM orientation of the corporate parent (pp. 729 & 749). Consideration of the role of the MNE head office in subsidiary compensation design was therefore included in this study because strategic IHRM functions are affected by the head office orientation towards IHRM, the resources devoted to the operation of HRM in the MNE, and the organisation and location of the HRM function (p.724). Thus the fifth research question was:

- **How does the MNE head office international orientation affect the choice of compensation design of an MNE subsidiary?**

The compensation of an MNE was posited by Schuler, Dowling and De Cieri (1993:725) to be one of the SIHRM policies and practices which is 'most relevant to the strategic needs of the business'. To that end, it was noted that an MNE might, as part of its IHRM strategy, attempt to change aspects of the external environment in which it is operating rather than merely react to them. Alternatively, it may attempt to minimise or avoid the effects of the external environment on its compensation practices if they are preventing the MNE parent and/or affiliate from designing their preferred compensation systems. Nevertheless, the impact of the endogenous factors, in addition to the exogenous, should not be neglected for their impact on MNE inter-unit linkages, internal operations, and SIHRM functions, policies and practices.

This research project takes the stance that elements of the external environment may affect the compensation of various occupations in the MNE subsidiary in different ways and to different degrees, with the result that the number of choices available to the affiliate and parent MNE management for compensation design may vary. To speak in terms of a single MNE subsidiary compensation *system* may thus be inappropriate as a unit may have several compensation *systems*. The number of compensation practices in the case study companies is therefore identified first, followed by an analysis of the type of each compensation system used according to the Gomez-Mejia and Balkin (1992) Experiential and Algorithmic Compensation Patterns. This leads to a summary of the amount of discretion that an MNE may have in compensation design and a comparison of the total employee benefits in the case companies.

The Number of Compensation Systems in the Case Study Companies

One initial difficulty in assessing how the external environment influences the compensation system of the MNE subsidiary is to recognise that the affiliate may have more than one reward system, and that the environment may impact on each one differently. Indeed, from the case studies, it was apparent that the number of separate systems could equal the main occupational clusters such as:

- PCN director/local HCN board member
- Non-executive local HCN director
- Short-term PCN or TCN expatriate manager
- Long-term PCN or TCN expatriate manager
- HCN Managers
- HCN Administrative/clerical
- HCN Technical
- HCN Sales
- HCN Supervision
- HCN industrial/blue-collar

Management then has a choice of each element of the compensation system for each level of employee — a myriad of decisions. The number of separate occupational systems in the case studies companies (where pay structures, mix and/or employee benefits varied) is shown in Table 12.1.

Table 12.1 indicates the complexity of the overall compensation system in each affiliate and company. Why a subsidiary and/or MNE corporate management decides on a set number and composition of pay systems is open to conjecture as there is little research on why organisations chose a particular number and base them on skill, job or external market rates (Gerhart, Milkovich & Murray, 1992). From the literature, it has been suggested that compensation strategy can be determined by a composition of corporate, business unit and functional organisational strategies, plus internal and external environmental factors (Milkovich, 1988). However, the organisational strategies have been 'postulated to be the primary determinant' of a compensation strategy (p.274), with research having concentrated on the link of diversification, life cycles, business unit strategies and HR strategy to compensation (pp.274–9). Internal variables affecting composition decisions could include the type of organisation, the handling of the internal labour market, size, profitability and the labour cost/total cost ratio (p.274). In contrast,

Table 12.1
Number of Different Compensation Systems in the Case Study Companies

Australia	Singapore
Oilco Australia: 11 Systems	**Oilco Singapore:4 Systems**
Head Office	**Head Office, Refinery and Terminal**
(1) Expatriates (including some directors)	(1) Expatriates (including some directors)
(2) Directors/letter grades (excludes external non-executive directors and expatriates)	(2) Directors (excluding expatriates)
(3) Senior Management (Hay)*	(3) Management/professional (Hay)
(4) Management/professional/ administrative/clerical (Hay)*	(4) Bargainable staff in collective agreement
Refinery	
(2) Senior Manager (Letter grade)	
(3) Senior Management (Hay)*	
(5) Clerical	
(6) Laboratory	
(7) Operators	
(8) Maintenance	
(9) Transport (Common with Terminal)	
Terminal	
(3) Senior Management (Hay)*	
(4) Clerks (Hay)	
(10) Maintenance	
(9) Transport (Common with Refinery)	
(11) Storemen and Packers	
Foodco Australia: 7 Systems	**Foodco Singapore: 4 Systems**
Manufacturing Plant	**Manufacturing Plant**
(1) Professional and Managerial (Managerial bonus)	(1) Expatriates
(2) Professional and Managerial (Members of staff - no bonus)	(2) Local management
(3) Supervisors	(3) Individual contracts for non-union non-management staff
(4) Operators	(4) Collective agreement for process and trades employees
(5) Trades and metals	
(6) Stores	
(7) Clerical	
Buildo Australia: 3 Systems	**Buildo Singapore: 4 Systems**
Manufacturing Plant	**Manufacturing Plant**
(1) Senior staff (Hay)	(1) Expatriate and senior executives
(2) Staff (Hay)	(2) Other Management
(3) Plant operators and trades	(3) Sales/technical/clerical
	(4) Industrial (blue-collar)
Metalco Australia: 4 Systems	**Metalco Singapore: 4 Systems**
Manufacturing Plant (as at 1993)	**Manufacturing Plant (as at 1993)**
(1) General Manager (Stratum 4)	(1) Expatriates (including GM)
(2) Professional and managerial	(2) Local managers/Sales/Technical/ (Individual contracts)
(3) Clerical	(3) Clerical/Administrative (Individual contracts)
(4) Industrial (blue-collar)	(4) Industrial staff

Table 12.1
Number of Different Compensation Systems in the Case Study Companies (Continued)

High Tech Australia: 7 Systems **	High Tech Singapore: 4 Systems
Head Office and Australian Operations	**Sales and Service**
(1)Senior Management	(1) CEO package
(2) Middle management	(2) Managers
(3) Research	(3) Sales
(4) Technical	(4) Clerical/marketing/service
(5) Sales	
(6) Clerical	
(7) Industrial (Blue-collar)	

Note: * While the senior management and other managerial/professional/administrative and clerical staff had their job grade based on the same Hay job evaluation system, the benefits for the senior managers and above differed. **High Tech Australia is a company rather than subsidiary.

external factors affecting choice include the effect of unions, legislation, industry characteristics, product and labour market pressures (p.274).

Other reasons for different numbers of systems may include (1) the organisational culture and values, (2) designing various career ladders (Milkovich & Newman, 1996), (3) the need to attract and retain particular types of staff (Gerhart, Milkovich & Murray, 1992), (4) the attempt to reinforce, change or send a signal about selected role behaviours required for competitive strategies (Schuler & Jackson, 1987), (5) the support for a team structure (Gross, 1995), (6) the copying of other similar organisations (Milkovich & Newman, 1996), (7) the acceptance and preferences of employees (e.g. choice of benefits), (8) technology and work requirements, (9) special compensation for strategic employee groups such as salespeople and executives, and (10) the nature of the workforce (Gomez-Mejia & Balkin, 1992). Of course, not all of these factors may have equal influence on pay mix of each system.

In a study of six Australian companies, Boxall (1992) found that the main HRM policies and practices were typically segmented between management and non-management labour, a custom common in the United States in the provision of fringe benefits — at least in the 1980s (Lawler, 1981). Other main demarcations may be due to legislation. For example, Milkovich and Newman (1999) list the exempted occupations to the minimum wage and overtime provisions of the US Fair Labor Standards Act (p.545) — again encouraging more than one system. Rather than having several systems, some companies such as IBM have had a single 'all-salary' workforce for many years, but the effect of this on organisational effectiveness has not always been clear (Lawler, 1981). The link between pay system and performance may not just be one way, of course. Milkovich and Newman (1999) argue that employee behaviour and organisational performance may cause changes in compensation systems as well as being the result of them (p.42).

Some of these variables can now be applied to the case study companies in this thesis while recognising that they cannot be a full causal explanation for the number of compensation systems in the subsidiaries. Taking Oilco first, both Oilco Australia and Oilco Singapore were large subsidiaries with capital intensive process production, strong HRM functions and recognised unions. The main difference was the number of unions and collective agreements in each affiliate. The corporate Oilco MNE parent had decided that senior and middle management would use the Hay job evaluation system in both subsidiaries, although this was used for a greater range of staff in Oilco Australia. The recognition of unions immediately divided the workforce into unionised and non-unionised and restricted the compensation options for unionised staff in both affiliates. Oilco Australia, in its desire to decentralise compensation of its non-Hay evaluated employees to the enterprise, had to deal with individual occupational unions, and negotiate five non-management pay systems for the refinery and terminal. This was part of a HRM strategy to gain more flexibility and a greater concentration on payment for skills, and was made possible by legislative change and the decisions of the Australian Industrial Relations Commission (AIRC). By comparison, Oilco Singapore had only one broad-ranging collective agreement which had existed since the 1960s and was very much based on the job classifications. For the locations studied, Oilco Australia had eleven different compensation systems compared with four in Oilco Singapore.

The number of compensation systems in Foodco Australia (seven) also exceeded those in its Singaporean counterpart (four). Although it was a much bigger operation, this was again mainly due to the award and union structure in Australia. In the Australian unit, professional and managerial pay was centralised, whereas non-management compensation was a series of enterprise agreements and informal salary systems, most of which were underpinned by various awards. The strategy for the operators was to pay for skill and generally minimise the union role by informal site agreements. By contrast, Foodco Singapore had one collective agreement for process and trades staff with the other employees on individual contracts. With the Buildo MNE, Buildo Australia's compensation was more formally structured than in Singapore, especially at middle and managerial levels through the application of Hay job evaluation principles. It only had one Metal Industry Award as the foundation for its skill-based pay and one enterprise incentive agreement that generated a bonus for the shopfloor and 'staff' employees. In total, it had three compensation systems. On the other hand, Buildo Singapore was non-union, but had a formal structure for the blue-collar employees. The essence of pay design for the remaining staff was the individual contract. Including the expatriates, it operated with four different pay systems.

Metalco Australia was considerably larger than Metalco Singapore in 1993 and had more formalised compensation systems at all levels with its centralised strata system in which it had no option but to participate. The plant agreements at lower levels were the result of its recognition of unions for blue-collar and clerical employees although all occupations eventually were integrated into the strata system of the corporate MNE. Only the General Manager in Metalco Singapore had his level established through the common strata system. Blue-collar employees (who were not unionised) had unique features in their pay system, but the rest of the staff were on individual contracts. Both affiliates had four systems, although one of these was for an expatriate in Metalco Singapore.

Size, unionisation and a greater variety of occupations were the main differences between High Tech Australia and High Tech Singapore. The Australian company used the award system and eventually its own enterprise agreement as the basis for its grading of its industrial staff, clerical awards as a basis for individual negotiation, base salary and commission for sales people, the award as the basis for service staff, individual negotiation for research personnel, and a variety of pay-for-performance schemes for middle and senior management. The company thus arguably used changes in legislation and the award system to change the focus of blue-collar employees towards skill enhancement. As High Tech Singapore was essentially a sales and service operation, the range of staff was smaller. It was not unionised and so the individual contract was the main compensation basis. Special groups such as the sales team and management had unique incentive components. In total, High Tech Australia had seven pay systems and the Singaporean affiliate four.

Leaving aside organisation strategies as the main causal factor for the number of compensation systems in a subsidiary, a number of other generalisations could be made about the case study affiliates. The type of MNE and IHRM approach of the parent may determine whether and how many expatriates there are in a subsidiary, what role they play and how they will be compensated. There were expatriates present in Oilco Australia, Oilco Singapore, Foodco Singapore, Buildo Singapore, and Metalco Singapore. This produces an extra compensation system to be managed in the affiliate. Further, an ethnocentric SIHRM approach (Schuler, Dowling & De Cieri, 1993) or exportive SIHRM orientation (Taylor, Beechler & Napier, 1996) towards a part of the overall compensation system will create an extra system and was evident in the two Oilco subsidiaries and in Metalco Singapore. A subsidiary's variety of occupations usually resulted in more compensation systems, but not necessarily. More important might have been a desire to have everyone employed by individual contracts, or the availability of collective agreements for a range of occupations negotiated with a single union (Oilco Singapore and Foodco Singapore).

Separate compensation for strategic employee groups (Gomez-Mejia & Balkin, 1992) will increase the number of systems and was introduced in several subsidiaries such as Foodco Australia and Foodco Singapore (managerial bonuses), and in High Tech Singapore (salespeople). There was an attempt to focus pay on skill enhancement in blue-collar roles in Oilco Australia, Foodco Australia, Foodco Singapore and the High Tech Australia company, and some choice of employee benefits at the top levels of Oilco Australia and High Tech Australia. Finally, the presence of unions in both the Australian and Singaporean compensation systems had a major impact on pay design. This was more dramatic in Australia, where the occupational and general union structures with their accompanying awards make a multi-system inevitable. Further research could assess the corporate effectiveness implications of having high numbers of separate compensation systems, especially for a unionised workforce. Prima facie, if a company only has to negotiate one broad-based collective agreement compared with several agreements, the savings in negotiating time alone could be very large.

The Types of Compensation Systems in the Case Study Companies

In assessing the influence of the external environment on subsidiary compensation, the different number of separate systems is not the only complication. It became apparent from the case studies that the basis, design issues and administrative framework for compensation (Gomez-Mejia & Balkin, 1992) could also vary between occupations within one affiliate as well as between the subsidiaries. Each unit did not necessarily have a uniform compensation system across all occupations. If special groups need to have specific employee characteristics, obviously one might expect differences anyway. This variation in occupational compensation practice was shown by using the Gomez-Mejia and Balkin (1992:61) Summary Profile of Experiential and Algorithmic Compensation Patterns (with the 'Superior Dependency' basis omitted). The question then is whether the external environment may have a different effect on each level of the organisation, and whether the principles on which the pay has been designed have more been influenced by endogenous or exogenous factors or both equally. Whether a compensation system in the case study companies had an overall Algorithmic and Experiential pattern is shown in Table 12.2. The general pattern is a combination of the basis for pay, design issues and administrative framework. It has not been produced for every pay system in the subsidiary and company, but only for the main ones selected for comparison.

Table 12.2 shows that there were differences in Algorithmic and Experiential profiles for the compensation systems *within* a subsidiary and *between* subsidiaries. Those affiliates with intra-subsidiary compensation differences, in general, were:

- Buildo Australia
- Foodco Singapore
- Buildo Singapore
- Metalco Singapore
- High Tech Singapore

Table 12.2

Summary Profile of Algorithmic (A) and Experiential (E) Patterns in the Compensation of the Case Study Companies

Company/Occupation	Algorithmic,* Experiential,*	Company/Occupation	Algorithmic,* Experiential,*
Oilco Australia		**Oilco Singapore**	
Operating	Algorithmic	Operating	Algorithmic
Clerical	Algorithmic	Clerical	Algorithmic
Managerial**	Algorithmic	Managerial**	Algorithmic
Foodco Australia		**Foodco Singapore**	
Operating	Algorithmic	Operating	Experiential
Clerical	Algorithmic	Clerical	Balance of A/E
Managerial	Algorithmic	Managerial**	Marginally Algor.
Buildo Australia		**Buildo Singapore**	
Industrial (Blue-collar)	Experiential	Industrial (Blue-collar)	Experiential
Clerical	Algorithmic	Clerical	Marginally Algor.
Managerial	Algorithmic	Managerial**	Marginally Algor.
Metalco Australia		**Metalco Singapore**	
Industrial (blue-collar)	Algorithmic	Industrial	Algorithmic
Clerical	Algorithmic	Clerical/Admin.	Algorithmic
Administrative and Technical***	Algorithmic	Sales and Technical***	Marginally Algor.
Managerial	Algorithmic	Managerial**	Balance of A/E
High Tech Australia******		**High Tech Singapore**	
Clerical	Algorithmic	Clerical	Balance of A/E
Sales	Balance of A/E.	Sales	Experiential
Technical Service	Algorithmic	Technical Service	Balance of A/E
Managerial	Balance of A/E	Managerial	Experiential

Note: The stated general compensation pattern for each subsidiary's occupation is based on those common compensation elements in each pair of MNE subsidiaries for which data were available and applicable in both. *A=Algorithmic; E=Experiential.** Excludes expatriates.
*** Occupations do not match precisely as there was no sales function in Metalco Australia
**** High Tech Australia is a parent company rather than subsidiary

As a parent company rather than a subsidiary, High Tech Australia is omitted from the list, but it too had intra-company differences. Those subsidiaries where the pay systems were, in general, all similar within the unit were:

- Oilco Australia

- Foodco Australia
- Metalco Australia
- Oilco Singapore

Having already discussed the possible variables for determining compensation design including supporting corporate and business strategies, differences within the subsidiaries should not be surprising especially if separate systems are designed for (1) different unions and awards, (2) strategic employee groups because different behaviours and employee characteristics are required, or (3) compliance with the parent MNE which wishes to replicate some structures in affiliates. There was only one Singaporean subsidiary with the same profiles for all occupations listed (Oilco), and three Australian — Oilco Australia, Foodco Australia and Metalco Australia. There were three Australian and four Singaporean affiliates where there was a mixture of Algorithmic and Experiential compensation profiles for occupations within the subsidiary.

If we now compare the occupational compensation of some selected jobs between the Australian and Singaporean subsidiaries and companies using the Algorithmic and Experiential patterns based on the results in Table 12.2, no overall pattern of similarities and differences emerges, as Table 12.3 depicts. According to Table 12.3, using the Algorithmic and Experiential patterns, there is no symmetry between the two sets of affiliates and companies for all MNEs. For some occupations, the profile is similar; for others, it is different. Only in one MNE (Oilco) were all the selected pay systems completely similar in profile between the subsidiaries and companies in the same MNE in Australia and Singapore. In Foodco and High Tech, all compensation systems assessed on the Algorithmic and Experiential dimensions in Australia and Singapore were different from each other. It has to be acknowledged that all characteristics of pay including its basis, design issues and administrative framework are reduced to a single Algorithmic or Experiential profile letter for an occupational group in the tables, and that there are several features for which data were unknown, thus opening up the possibility that further investigation might have pushed a balance of Algorithmic or Experiential features one way or the other. However, although this may thus be an over-generalised portrayal glossing over important detail, it does suggest that either internal or external factors or

Table 12.3
Similarities and Differences in Algorithmic and Experiential Compensation Profile for Occupations in the Case Study MNE Subsidiaries and Companies

Company/Occupation	Whether Compensation is Similar or Different in Australian and Singaporean Subsidiaries. of the Same MNE
Oilco Australia/Singapore	
Operating	Similar
Clerical	Similar
Managerial	Similar
Foodco Australia/Singapore	
Operating	Different
Clerical	Different
Managerial	Marginally Different
Buildo Australia/Singapore	
Industrial (Blue-Collar)	Similar
Clerical	Marginally Different
Managerial	Marginally Different
Metalco Australia/Singapore	
Industrial (Blue-Collar)	Similar
Clerical/Admin*	Similar
Admin/Sales/Technical*	Marginally Different
Managerial	Different
High Tech Australia/Singapore**	
Clerical	Different
Sales	Different
Technical Service	Different
Managerial	Different

Notes: *This was a comparison of Clerical in Metalco Australia with Clerical/Administrative in Metalco Singapore. Administrative and Technical in Metalco Australia were compared with Sales and Technical in Metalco Singapore, so they are not precise matches.** High Tech Australia is a parent MNE

both, are impacting on subsidiary compensation to different degrees at different levels. Alternatively, it may also suggest that there are different levels of managerial discretion in choosing compensation design in both countries and/or that the parent MNE is not replicating and transferring similar compensation practices to all units for all occupations.

To process the data from Table 12.2 and the case studies further, similarities in the compensation profile for similar occupations in the same country may suggest whether the nature of the occupation is more significant than other internal and external variables. This is shown in Table 12.4. While the number of MNEs studied is small, Table 12.4 reveals that industrial/operating staff compensation was a mixture of Algorithmic and Experiential schemes in both the Australian and Singaporean subsidiaries and companies.

Table 12.4
Algorithmic* or Experiential* Profile by Occupation in Australian and Singaporean Subsidiaries and Companies

Company/ Occupation	Operating Or Industrial	Clerical/ Admin.	Admin/ Tech	Sales	Tech./ Tech. Service	Managerial
Australia						
Oilco Aus	A	A				A
Foodco Aus	A	A				A
Buildo Aus	E	A				A
Metalco Aus	A	A	A			A
High Tech Au+	A	A		A/E	A	A/E
Singapore						
Oilco Sing	A	A				A
Foodco Sing	E	A/E				MargA**
Builo Sing	E	MargA**				MargA**
Metalco Sing	A	A	MargA***			A/E
High Tech S.	-	A/E		E	A/E	E

Notes: *Algorithmic and Experiential are denoted by A and E. A/E means a balance of the two patterns. **Marg means Marginally. ***Administrative and Technical in Metalco Australia were compared with Sales and Technical in Metalco Singapore, so they are not precise matches. The stated general compensation pattern for each subsidiary's occupation is based on those common compensation elements in each pair of MNE subsidiaries and companies for which data were available and applicable in both.
+ High Tech Australia is a parent MNE rather than subsidiary.

Clerical compensation across all units in Australia was Algorithmic whereas the Singaporean profiles were more dissimilar. At the managerial level, of all the subsidiaries and companies, there was only one clear Experiential system, although five others were a balance (or near balance) of both Algorithmic and Experiential features. The pattern for all Australian affiliate and company compensation was more Algorithmic compared with a more diverse profile in Singapore. As argued earlier, single general profiles conceal variations in detail, so Appendices 12.1 and 12.2 list the basis for pay, design issues and administrative framework for the selected pay systems, based on the Gomez-Mejia and Balkin (1992) Summary Profiles. By doing this, the reasons for the inter-subsidiary differences become more apparent.

Summary Profiles of the Compensation in the Australian Case Companies

Appendix 12.1 shows that the compensation pattern for the Unit of Analysis for operating/industrial employees in all Australian subsidiaries/companies was Experiential due to the move to skill-based schemes in awards. This compared with a totally job-based Algorithmic pattern for the managerial systems in all affiliates and companies, clerical systems also being mainly job-based. Tenure and performance as criteria for pay increases was not always clear across the Australian units, there being skill and annual reviews for operating staff, annual reviews and performance rises for clerical, and a mixture of performance and overall reviews for managers in Australia. Appraisal of industrial staff was unusual in the Australian affiliates and more common for clerical staff, although not necessarily tied to pay rises. At managerial level, all Australian affiliates and companies had individual appraisal linked to compensation rises or bonuses — an Experiential feature. As might be expected, there was more emphasis on aggregate as well as individual performance for managerial staff giving a more Experiential profile.

Almost without exception, all Australian affiliate and company compensation operated on a short-term time frame. Apart from the offering of company shares, all reviews and objectives for pay purposes were set on an annual cycle. The pay at risk was higher for the Australian managerial staff, where rewards could be based on objectives reached and contingent on corporate performance. Only in one company was the risk moderate, the loss being a merit increase only. Two of the Australian affiliates — Oilco Australia (A), and Foodco (A) — used corporate measures as criteria for pay decisions for senior management, while Buildo (A), Metalco (A) and High Tech (A) were more geared towards the business unit. Three of the Australian subsidiaries had pay systems based on a hierarchy but with the general grade structure linked to the pay levels of the labour market (an Algorithmic/Experiential pattern). In all Australian affiliates and companies studied, the employee benefits packages varied according to rank, and the hierarchical job evaluation systems in almost all companies meant that the operating/industrial, clerical and managerial systems were all Algorithmic. The Type of Control exercised (behaviour or outcome) varied in the operating/industrial and clerical categories. By comparison, the control for managers was all outcome-based (Experiential).

Appendix 12.1 also indicates the differences in the Design Issues (Gomez-Mejia and Balkin, 1992) of the Australian compensation systems. Because of the agreement on confidentiality, compensation data were not sought, but several Australian subsidiaries and companies talked of trying to achieve above-market pay levels, and some volunteered pay data. Most affiliates were unaware of a definite benefits policy on the position they aspired to in relation to the market, so data were not available on this either. As stated earlier, the amount of variable pay was a small proportion of total compensation at lower levels in the Australian subsidiaries and companies, whereas the element of risk was higher for managerial staff (Experiential). However, the percentages within the managerial cohort varied, being low in Foodco (A) and Metalco (A). In all the Australian affiliates and companies studied, the stance of providing high immediate payoffs with low future potential was taken (Algorithmic). Similarly, the Reinforcement Schedule for the Australian affiliates and companies was almost all Algorithmic in that fewer rewards were paid at a low frequency.

In the third group of Compensation Profile features — Administrative Framework — the first issue is whether pay is centralised or decentralised. Centralisation versus decentralisation 'refers to the degree to which pay decisions and approval procedures are tightly controlled by corporate headquarters or delegated to various plants, divisions, and other subunits within the firm' (Gomez-Mejia & Balkin, 1992:53). Like the strategic focus discussed earlier, centralisation is interpreted in this study as the degree to which all pay policies and decisions in the subsidiary were controlled by the national head office, and not the corporate head office of the whole MNE e.g. in Europe or the United States. Where the MNE was Australian owned, the corporate and national headquarters are the same (e.g. Buildo, Metalco and High Tech). In the degree of centralisation of compensation, the size of the company was arguably important as the pay for the operating/industrial staff in all affiliates was mainly decentralised (Experiential), clerical evenly split between centralised and decentralised, and managerial compensation very centralised (Algorithmic). Pay disclosure tended to be more open at the lower levels of the subsidiaries and companies (Experiential), especially where agreements registered with the AIRC were publicly available.

The Governance Structure of the compensation systems in the Australian subsidiaries and companies was more participative at lower levels where unions were part of the negotiated agreements (Experiential) compared with the more autocratic design of managerial pay (Algorithmic). The use of enterprise agreements registered with an industrial tribunal, the use of awards for main conditions, and job evaluation for non-industrial staff resulted in documentation on compensation procedures, as illustrated by Oilco (A) and Metalco (A). The degree of flexibility might vary between job levels, however, as skill-based systems give management the discretion to assess employees individually (Experiential) (e.g. Buildo Australia's operators). While deciding the size of individual managerial bonuses on merit involved some discretion in most cases, in companies like Oilco (A), Foodco (A), Buildo (A) and Metalco (A), this had to be done within constraints laid down from central administrations.

Summary Profiles of the Compensation in the Singaporean Case Companies

The features of the Gomez-Mejia and Balkin (1992) compensation patterns for the Singaporean affiliates are recorded in Appendix 12.2. Compared with the Australian affiliates and companies, there were more overall Experiential profiles in Singaporean units or a balance of Algorithmic and Experiential features. Like their Australian counterparts, no Singaporean subsidiary conformed completely to either an Algorithmic or Experiential pattern. The Basis of Pay (Unit of Analysis) differed across all units. However, pay for the majority of clerical and all managerial positions was initially based on job size (Algorithmic). Compared with Australian staff, a major difference in the criteria for pay increases for the Singaporean industrial and clerical employees was a greater reliance on length of service. Formal performance appraisal for industrial and clerical staff was not widespread. For managers, the criteria for pay increases were more performance-based.

An examination of the level of performance measurement (individual or individual plus aggregate) in the Singaporean subsidiaries showed that formal individual appraisal with pay linkages to performance was rare. However, all levels of staff for all subsidiaries received bonuses and/or an Annual Wage Supplement (AWS) dependent on company performance, although three affiliates took individual performance of managers into account as well. Like the Australian systems, all compensation systems were short-term in orientation (Algorithmic); the setting of objectives and the review of pay were usually on an annual basis. By comparison, the risk sharing of employees in Singapore was much higher, with most bonuses and AWS contingent on subsidiary performance (Experiential). This was to be expected from the advocacy for greater flexibility of pay systems by the National Wages Council and the Singaporean Government.

The affiliate performance rather than the corporate MNE success was the Strategic Focus for managerial rewards (Gomez-Mejia & Balkin, 1992). With the tight labour market in Singapore, it was anticipated that the compensation of affiliates would be based more on labour market rates rather than internal consistency principles, especially if the subsidiaries were small and without formal salary structures. Oilco Singapore (S), Foodco (S), and Buildo (S) had formal structures for particular occupational groups while Metalco (S) had a more informal structure for its industrial employees; nevertheless, all subsidiaries reviewed external pay rates regularly. The remaining pay schemes studied were individually based and used the market as the main determinant of base salary level (Experiential). However, at managerial levels, it was uniform practice to link pay to outcomes rather than behaviour.

Like the study of the Australian subsidiaries and companies, no data were sought on pay levels of the Singaporean affiliates apart from that which was publicly available. Further, no material was available on whether the range of benefits for each affiliate was above or below the market average. Nevertheless, data on the pay mix in the affiliates were available and, compared with the Australian counterparts, showed a higher proportion of variable pay.

All the Singaporean MNE affiliates emphasised the immediate paying of bonuses and merit pay, an Algorithmic feature, rather than using 'high future potential' (deferred payment plans) in their Total Compensation (Gomez-Mejia & Balkin, 1992: 61). Employee share-holding was not on a large scale for those companies where this was possible. Like most of the Australian units, the Reinforcement Schedule for most Singaporean subsidiaries was annual, mainly because, as its name implies, the AWS is provided annually, profits were shared annually and objectives set annually.

The final category of the Gomez-Mejia and Balkin (1992) Profile is the Administrative Framework. This covers the degree of centralisation of compensation systems, pay disclosure, employee participation in design, and system bureaucracy and flexibility. For these elements, the compensation practices across the Singaporean subsidiaries did not show any uniform patterns.

The Degree of Discretion in Choice of Compensation

If the external environment completely determined compensation design in a country, then arguably one would expect a set of identical pay systems in that nation. On the other hand, variation would imply that management had some discretion in choice of system. Very few of the occupations selected for analysis from either the Australian or Singaporean affiliates and companies had exactly the same Algorithmic or Experiential profiles as each other. One exception was the operating and clerical staff in the same collective agreement of Oilco Singapore.

In examining the features of each of the occupational patterns shown in Appendices 12.1 and 12.2, we can comment on the degree of discretion which management in the subsidiaries had. The starting point is that compensation design is assumed to have flowed from either the corporate MNE and/or subsidiary business strategies, and that design will be affected by other internal and external factors. Each of the Gomez-Mejia and Balkin (1992) compensation choices (see Appendix 4.3) is used as a guide for the comments.

In either Australia or Singapore, a choice of skill or job as the basic unit for the compensation systems was possible, irrespective of whether this was in a collective agreement or not. The main constraint for the unionised staff in Australian affiliates was the recommendation of the AIRC that awards and agreements be based on skill and include career structures. The longevity of the job-based systems in all the MNEs could be due to a variety of reasons ranging from (1) reluctance to remove a long-standing and understood system, to (2) the Singaporean national culture which reinforces hierarchies.

The criteria for giving pay increases can include tenure or performance. Legally, there is no constraint on either criterion in Australia or Singapore, although the method for increasing pay will usually be included in collective agreements, which are legally binding. Payment for tenure is more common in Singapore, as discussed earlier, and is reflected in the pay systems of operating and clerical staff. This could be attributed to the national culture and status gained from seniority, the historic tradition of the family firm in rewarding loyalty (Gomez-Mejia & Balkin, 1992) and/or earlier copying the practices of the British Civil Service. In the Australian affiliates and companies, this pay for tenure custom was not as strong for operating and clerical employees except for those who were working in areas covered by some former clerical awards. The emphasis on performance linked to pay rises can possibly be explained by the strategic importance of the management group irrespective of national location.

The management choice with regard to individual or aggregate performance for rewards in the subsidiaries may have been affected by both internal and external environmental influences. Formal individual performance appraisal mechanisms varied across the affiliates in both countries. Comparing the two countries, apart from what is agreed and ratified in federal awards or enterprise agreements in Australia, the MNE has a choice of measurement tool or incentive. In the same way, apart from what is agreed and ratified in a collective agreement in Singapore and the payment of the AWS, the MNE affiliate has considerable discretion. The performance measurement systems may thus depend on the organisational culture that the MNE wants to foster, and the behaviour and performance it requires, particularly of managers. However, some factors may constrain the type of performance system. They include (1) the ease with which performance outcomes can be attributed to individuals, (2) national cultural constraints such as loss of face or dislike of the singling out of individuals through variable incentives, and (3) the HRM know-how of the affiliate.

The Tables in Appendices 12.1 and 12.2 record that the time orientation for measuring performance and reviewing rewards was short for nearly all Australian and Singaporean affiliates and companies. The choice may be affected by internal variables like the organisational culture of the corporate MNEs and subsidiaries, their long-term and short-term planning processes and cycles, and the frequency of business plans and budgets. At the subsidiary level, the technology of the production process and the preferences of employees may determine the type of incentives. Apart from the business planning aspect, national cultures may encourage managerial and employee short-term orientation (Gomez-Mejia & Balkin, 1992) as might institutional actions such as the annual recommendations of the Singaporean National Wages Council and the announcement of the annual Singaporean Civil Service salary rises.

Risk sharing in the Gomez-Mejia and Balkin (1992) Compensation Profile refers to the proportion of employee earnings that are variable through being contingent on achievement of group or organisation performance goals. If the MNE subsidiary follows local practice, the area of discretion is possibly greater in Singapore than in Australia, as there is government encouragement for more flexible compensation. However, rather than being decided by management only, the degree of pay at risk for unionised industrial employees in both countries may be negotiable and in the collective agreement. For both unionised and non-unionised staff in Singapore, the custom and practice of the payment of AWS is a major variable component. This was reflected in the level of compensation at risk recorded in the case study data and was higher in Singapore than in Australia. There is no legislation that covers variable pay in Australia and, in the Australian case subsidiaries and companies, managers had more pay at risk than did clerical and industrial occupations. In both countries, the importance of the management performance to the effectiveness of the subsidiary may explain the pay–perfomance link, but employee attitudes towards risk sharing may also be attributed to a particular national culture.

Internal structural factors and the head office orientation of a corporate MNE rather than external factors could possibly explain the Strategic Focus of the compensation of top management in the subsidiaries in both Australia and Singapore. The criteria to which executive pay in the subsidiaries were tied may have been laid down by the corporate MNE head office. Because of the complexity of systems, the allocation of an Algorithmic or Experiential label to each affiliate for using corporate or business unit performance for pay purposes is difficult here.

Gomez-Mejia and Balkin's (1992) concepts of internal and external equity are termed internal consistency and external competitiveness by Milkovich and Newman (1996) — two strategies that may often conflict with each other. Several factors may affect which dimension is given emphasis by management of an MNE subsidiary. Milkovich and Newman (1996) suggest that the major factors that influence *internal* structures of a domestic firm include:

> societal norms and customs; the economic conditions in which organizations operate; the culture, technology, strategy and objectives of a particular organization; and the particular characteristics of the work and the employees involved (p.53).

Pay levels and *external* competitiveness can also be influenced by similar factors such as business strategies, kind of workforce, labour market competition, and product competition (Milkovich and Newman, 1996). As an MNE, the affiliate may be affected by head office IHRM policy such as common international pay structures especially for expatriates and host country managers, but it has also to attract and retain employees from the various labour markets in the host nation. Local legislation and industrial systems may limit the subsidiary's pay choices as well.

Historically, the job classifications of the award system set the basis for the internal structure for industrial and clerical staff in the Australian units, and pay rises were dependent on the recommendations of the NWC of the AIRC. The AIRC based the size of the general increases across the nation on what it considered the economy could bear. As we have noted, the affiliate could blur the relativities by exceeding the set rates by over-award payments according to labour market pressures and other factors. More recently, the AIRC has encouraged internal structures based on skills, particularly as a foundation for new enterprise agreements. Choices for internal structures for staff outside the scope of the award system are much wider. By contrast, there is no legislation in Singapore governing internal structures, but the NWC has suggested guidelines for the ratio of minimum to maximum salaries in grades and encouraged greater variable pay components. The similarity of the collective agreements in Singapore with the emphasis on job structures, grade ranges and defined annual increments for length of service appear to be the result of custom. For non-bargainable employees, the management has more scope. The choice for MNE managers in internal consistency and external competitiveness is affected by internal and external factors, the latter including the state of the labour markets in which they function.

While all the subsidiaries and companies were assessed as Algorithmic for Reward Distribution (Gomez-Mejia and Balkin, 1992), the degree of difference in hierarchies obviously varies from unit to unit. While internal factors such as size may determine this, external environmental factors such as unions and national culture (particularly Hofstede's [1980] Power Distance dimension) play a role because unions in Singapore and Australia preferred either a skill or job hierarchy for their members, and because compensation hierarchies were very tall in some of the industrial compensation systems in the Singaporean case studies — Singapore having a high Power Distance dimension.

The final feature for the Basis for Pay of Gomez-Mejia and Balkin's (1992) compensation profile is the Type of Control—namely whether the emphasis is on monitoring behaviour or outcomes. Research on managerial pay strongly suggests that 'more diversified firms do generally rely on output controls, while less diversified companies rely on behavioral and process controls' (Gomez-Mejia and Balkin, 1992:47). Whether this can be generalised to MNEs is open to question; it may depend on the type of MNE. But in the case companies, all managers were subject to output controls (Experiential). The picture for non-managerial staff was more varied. From an MNE head office viewpoint, prima facie, it would seem easier to review subsidiary managers against output criteria set across the MNE, but Gomez-Mejia and Balkin (1992) argue that business units at an early stage of development or aggressively pursuing new markets 'should rely on subjective performance measures' (p.48). The criteria will depend on the MNE head office orientation and the extent to which it wishes to replicate performance appraisal systems and manage career mobility.

In addition to the state of the labour market, subsidiary managers' choice of pay levels will depend on MNE head orientation and company culture, labour costs, product markets, and the affiliate's ability to attract and retain either all staff or particular key occupations. The presence of unions and the stage of the subsidiary in its life cycle will also affect strategy for this feature.

In considering the significance of incentives in the pay mix, the definition of a 'significant' amount of pay 'at risk' in terms of percentage or dollars is clearly open to debate, and will be relative to occupation, industry or country standards, or all three. For the operating/industrial and clerical employees in the Australian subsidiaries and companies, incentives could not be judged to be significant by Singaporean standards. However, variable pay for managers in some Australian affiliates and companies could be judged as 'significant'. Apart from Metalco Singapore whose financial performance kept bonuses at a moderate level, all other subsidiaries in Singapore applied a high degree of pay at risk across their workforces. Factors affecting managerial discretion on variable pay encompassed the corporate MNE IHRM orientation, subsidiary business strategy, quality of performance management systems, and required behaviours for particular occupations. External factors included following local HRM practices, the influence of industrial bodies such as the Singaporean NWC, or national culture. National culture may not just affect the proportion of variable pay in total earnings, but also the type of incentive schemes as well (Hodgetts & Luthans, 1993b).

While a national culture may affect reinforcement patterns (e.g. preference for short-term or long-term gains), subsidiary managements have a choice (and presumably local experience) in judging how close the incentive should be paid to the achieved target. However, Gomez-Mejia and Balkin (1992) argue that continuous and regular interval reinforcement such as Christmas bonuses encourage a short-term orientation, compared with, say, the issuing of shares as part of a package. The kind of business strategy pursued by the MNE subsidiary determines whether a particular frequency of incentives is appropriate (Gomez-Mejia & Balkin, 1992).

From the findings from each of the case companies in both countries, no major attempts appeared to be in progress to further the non-monetary rewards of the workforces in the areas of quality of work life and job enrichment, with the possible exception of Metalco Singapore. However, there are problems of definition of a non-monetary reward emphasis. In Australia, as mentioned already, the move to skill-based pay in awards offers more opportinity for career progression and team organisation, and the negotiation of enterprise agreements in Oilco (A), Buildo (A) and High Tech (A) would have increased the amount of employee involvement in negotiations. The subsidiary management has therefore considerable choice in this area, although Gomez-Mejia and Balkin (1992) suggest that in a tight labour market (as was Singapore's), the monetary factor is very powerful in attracting and retaining key employees (p.52).

In relation to subsidiary decision making, in Australia, the industrial staff schemes of all subsidiaries and companies were uniquely designed, with the degree of autonomy from the country head office varying. With clerical staff working in the Australian owned MNE head offices, it was to be expected that head office HRM staff would exercise closer control of affiliate clerical systems. In the non-Australian MNEs, the clerical compensation was unique to the site, although monitored by the national head office HRM function. Managerial pay for all Australian subsidiaries and companies was administered centrally. The IHRM orientation of the MNE head office plus its corporate HRM capacity to coordinate pay systems across the MNE determines the degree of centralisation and decentralisation of compensation in the subsidiary. Thus the degree of freedom of the Singaporean affiliates was higher for non-managerial levels than at managerial levels.

The effectiveness of high levels of pay disclosure is dependent on an appropriate organisational culture; otherwise, disclosure can 'exacerbate hostilities and conflicts' (Gomez-Mejia & Balkin, 1992: 55). In the Australian and Singaporean units, the presence of a registered collective agreement meant that grade levels and salaries were well publicised. For job evaluation schemes, the grade ranges may be known, if not actual individual salaries. In Australia, under corporations law for stock exchange listed companies, company officers' (i.e. directors') salaries have to be published in company annual reports for shareholders. Only in one subsidiary (Foodco Australia) did managers have to sign a salary confidentiality agreement, as it was their policy not to disclose grade ranges or the grade into which an employee was allocated. Apart from these several constraints, the affiliates and companies could adopt whatever disclosure policy they wished.

The presence of a union in subsidiaries in both countries had an impact on the Governance Structure and Nature of Pay Policies, the final dimensions of the Gomez-Mejia & Balkin (1992) Compensation Profile. In both countries, union recognition resulted in high levels of participation in compensation design and more formal documentation. Job evaluation systems also require more formal procedures and can use a range of employees in judging panels. Another form of participation is permitting employee choice of benefits packages within a fixed cost, or, as happened in Oilco Australia, setting up a series of employee focus groups to generate proposals for improved salary incentive systems. Internal factors such as size, organisational culture and union recognition affect discretion of management in these policies. Certainly the smaller subsidiaries without pay structures had more freedom to handle compensation on a case-by-case basis.

We conclude this chapter by considering one other aspect of the compensation package, namely employee benefits.

Comparison of Benefits in the Case Study Subsidiaries

The employee benefits of each MNE subsidiary and company considered in Chapters 7 to 12 showed that the benefits profile for the Singaporean and Australian affiliates and companies of each MNE was different. Because the range of internal and external variables affecting pay systems also impacts on benefits, this was not an unexpected result. It was suggested in Chapter 2 that the employee benefits provided by a company may depend on government policies for social security, retirement and health; employment legislation covering leave such as sick, maternity and annual leave; economic, taxation and incomes policies; demographic changes; the state of the labour market; and national culture. Internally for the MNE, there are decisions to be made about the following factors: the type of head office benefits to be standardised in all subsidiaries; labour/operating cost ratios; the level at which to pitch benefits in relation to local host country employers; the presence of unions and collective agreements; fitting benefits to organisational culture; the preferences of employees; and the offering of benefits sufficient to attract and retain key employees.

While merely comparing the number of benefits provided in each affiliate (according to the benefits questionnaire profile used in the study) is not of great value without knowing their cost and rationale, the case comparisons did show that a Newly Industrialised Country such as Singapore does offer an equally-wide range of benefits as that of a mature economy like Australia. Table 12.5 compares the total benefits for each subsidiary and company as at 1995.

Table 12.5

Number of Employee Benefits for Each Australian and Singaporean Subsidiary and Company

	Industrial/ Blue-Collar Unskilled	Skilled	Clerical/ Admin	Sales/ Technical	Professional/ Management	Board
Oilco Australia	25	25	23	21	23	21
Foodco Australia	17	17	17	13	17	17
Buildo Australia	16	16	16	19	21	
Metalco Australia*	15	16	19	21	23	
High Tech Australia**	24	24	18	19	20	20
Oilco Singapore	29	29	26	26	26	21
Foodco Singapore	26	26	23	23	21	
Buildo Singapore	19	19	16	20	17	13
Metalco Singapore*	15	15	12	13	12	
High Tech Singapore			21	23	21	

Notes: *This is the position as at 1993. For all other subsidiaries, the position is at 1995. These are the number of benefits as per the profile questionnaire used for the study. In some cases, additional benefits were given for certain occupations, especially under Australian awards.
** High Tech Australia is a parent MNE rather than subsidiary.

Table 12.5 indicates that Oilco Singapore offered more benefits than Oilco Australia for all occupations except for the Oilco Australia board members. A similar picture emerged for Foodco where the Singaporean affiliate was more generous. Up to the sales and technical level, Buildo Singapore's benefits exceeded those of its Australian counterpart, while the larger Metalco Australia provided more benefits across the organisation than did Metalco Singapore. Up to management level, High Tech Australia gave fewer benefits than High Tech Singapore. Table 12.5 also illustrates that the number of benefits can vary according to occupation irrespective of country.

The Tables in Appendices 12.3 and 12.4 show separately the frequency of each type of employee benefit offered in all Australian and Singaporean subsidiaries and companies.

Comparing both Tables, no affiliate or company gave housing renovation (as opposed to house purchase) loans, and no Singaporean unit paid more retirement benefit than was required under the Central Provident Fund (CPF) laws. These profile headings are therefore omitted from the tables. The figures are for the position as at 1995 except that Metalco's figures were calculated for 1993. There are several benefits shown in Appendices 12.3 and 12.4 that all subsidiaries gave irrespective of occupation or location. They were:

- Annual leave
- Compassionate Leave
- Maternity Leave
- Sick Leave

There were several other benefits that were common to almost all subsidiaries and companies either in Australia or Singapore. *Free medical treatment and medicine, hospital ward,* and *specialist surgical fees* benefits were widely provided in Singapore. In contrast, *paternity leave and retrenchment benefits* were almost universal in Australia whereas *paternity leave* was only provided in two affiliates in Singapore, and *retrenchment benefits* in just over half. Contributions to the *CPF* were compulsory in Singapore for retirement and other purposes, and *superannuation* was mandatory in Australia. Other relatively common benefits for the two countries were *long service awards, long term illness protection*, and *study leave* provision. Assistance with *dental costs* was given in about half the Singaporean affiliates, but rarely in Australia. The *Festive Loan/Advance* is unique to Singapore and usually given prior to the celebrations of Chinese New Year. It was a benefit in three subsidiaries up to technical and sales staff level. *Acting allowances, shift allowances, company uniform*, and *time off for union duties* in both countries were less frequent the higher the role. The provision of *mobile phones, entertainment expenses, employee share schemes* and *motor vehicles provision/cost reimbursement* rose with rank.

In the MNEs studied, several reasons can be suggested for the number and kind of benefits paid by the subsidiaries studied. The role of legislation and national culture is discussed in more detail in the next chapter, but Singapore's Employment Act lays down national standards for *annual leave, public holidays, sick leave, maternity leave*, and a negotiable *retrenchment benefit*. Beyond these, the benefits are either negotiated in a collective agreement or provided at the will of management. In Australia, many employee benefits are initially negotiated collectively and then included in industry, occupational, company or enterprise, state or federal awards, but several national standards for awards have been set as a result of test cases brought by unions before the Australian Industrial Relations Commission. These include *maternity leave, family leave* such as *unpaid adoption and paternity leave*, and *notice and compensation for retrenchment* (Creighton & Stewart, 1994). In addition, state governments (but not the federal government) have legislated for *long service leave*.

Summing up, for the benefits provision in both countries there are statutory and/or industrial award minima that the MNE subsidiary has to observe. Beyond these, the management of the affiliate has considerable discretion in selecting which benefits to offer to support its business strategy. Some of these will be affected by the type of production process of the unit, its location and the type of employee. For unionised staff, the range of benefits may have to be negotiated with a union and, once in a collective agreement, may be difficult to remove. It is arguable that as an economy and society change, the range of benefits changes with them. Greater insecurity of employment has resulted in national retrenchment standards in Australia and the right to negotiate retrenchment compensation in Singapore. In both nations, there was an emerging range of family leave reflecting the greater and changing role of women in the workforce. The other national (and organisational) cultural aspect was that the hierarchical nature of compensation was reinforced by the different benefits for managerial employees in most affiliates. In Singapore, the lack of a welfare infra-structure appeared particularly instrumental in the degree of health and dental coverage. While the organisational culture and IHRM orientation of a company may colour the paternalism of an MNE affiliate, the local management still has to operate within or above the standards of the local labour market to attract, motivate and retain staff. It has also to devise benefits within the relevant taxation requirements. These requirements are particularly stringent in Australia.

Concluding Summary

In this chapter we have drawn together some key findings of the thesis in the context of the main guiding question: **'How does the external environment of an MNE subsidiary influence the design of its compensation system?'** We have argued that, in answering this question, complications arise because affiliates may have more than one compensation system, each of which may be affected in a different way by the external environment. Comparing the compensation systems in the subsidiaries of the same MNEs showed different Algorithmic and Experiential features within and between affiliates. Possible explanations for these differences were offered. Despite the external environmental influence, we suggested that there would still be a considerable degree of choice of design of compensation system by an MNE's management, but that this was possibly higher at managerial level than at industrial (blue-collar) levels. Finally, the employee benefits given in all subsidiaries in Australia and Singapore were compared, and some reasons offered for differences between them.

CHAPTER THIRTEEN

RESEARCH PROPOSITIONS AND CONCLUSION

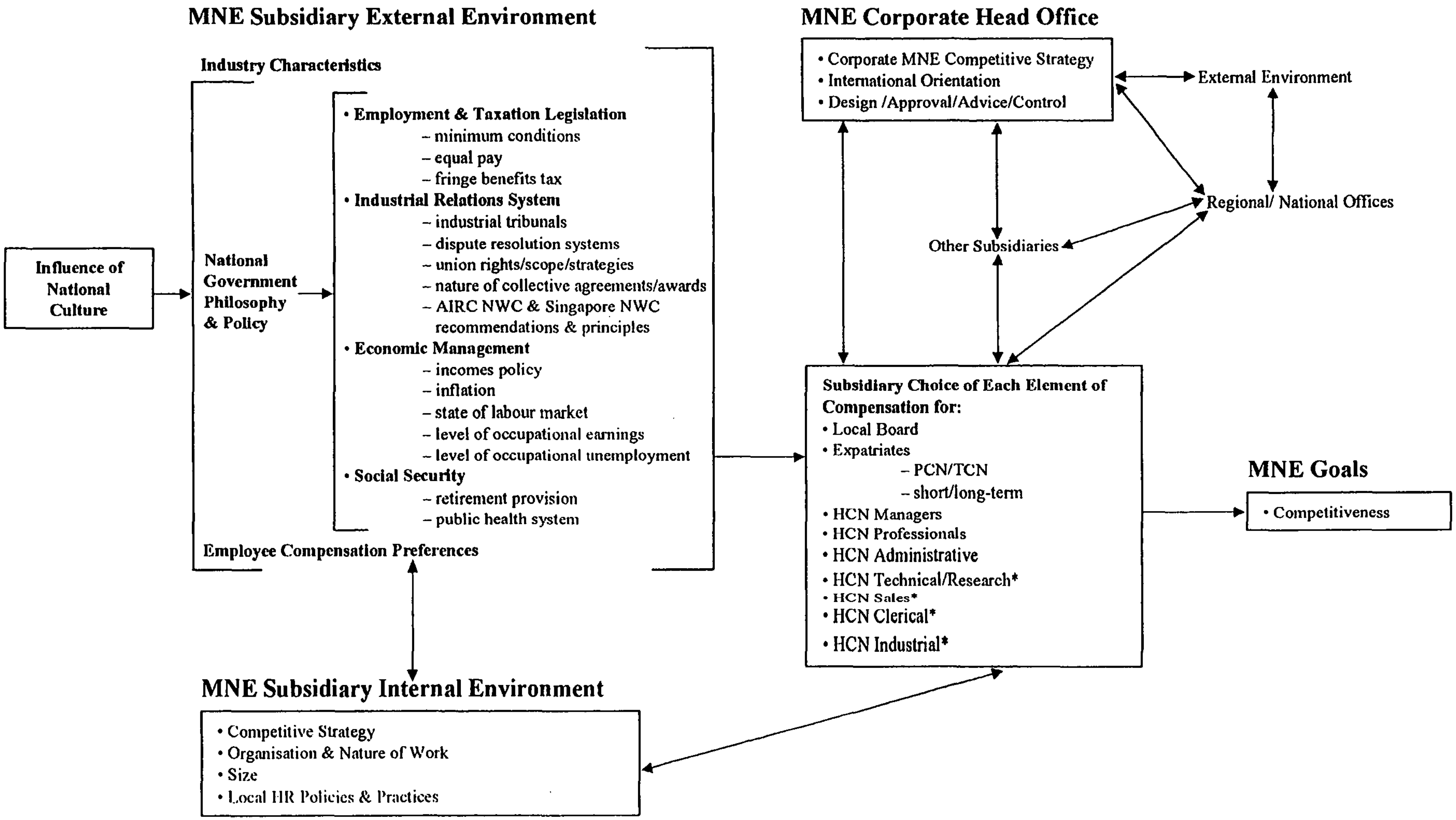
Explanatory Framework of Subsidiary Compensation Design

In Chapter 12, we noted that MNE subsidiaries usually had more than one compensation system, and that as there were variations in types of system within and between affiliates of the same MNE in different countries, the national external environment was arguably not a total determinant of compensation design. The management of affiliates therefore had a degree of discretion in design, but not total discretion, as the external environment of both Australia and Singapore presented some constraints.

The relationships between elements of the external environment and the case study subsidiaries' compensation systems are now considered again using the explanatory framework shown in Figure 13.1. Some relationships are used to develop some propositions for further testing. Based on the replication of the case study findings and the literature, the direct compensation/external environment linkages are placed in the context of the interaction of the MNE corporate, regional, and national offices with their respective external environments, the inter-linkages with the affiliates and, finally, the influence of certain elements of the internal environment on pay design. From the cases, it is assumed that competitive strategy was a dominant factor in compensation design. However, the organisation and nature of work, affiliate size, and local subsidiary human resource policies and practices also appeared to be significant.

Figure 13.1 incorporates the five levels needed for analysis of MNE compensation design (MNE corporate, regional, national, affiliate, and individual). With the assumption that any comprehensive SIHRM model has to start with the MNE corporate strategy (by definition), it follows that compensation systems should normally be designed top down. It is accepted that in some cases, corporate or business unit strategy may be formulated in response to management's preferred

Figure 13.1 Explanatory Framework of MNE Subsidiary Compensation Design



Note: * Effect of internal and external environment may vary according to whether these staff are unionised or non-unionised.

compensation system (Gomez-Mejia & Balkin, 1992), its desire to follow 'fads', or to maintain the status quo (Jackson & Schuler, 1995)—hence the bi-directional arrows between subsidiary competitive strategy and choice of compensation. Further, reverse arrows may reflect any negotiation that exists over competitive strategy, although this does not necessarily imply that the bottom of the MNE has as much power as the top (Frenkel & Royal, 1998). With the presence of regional offices (e.g. Buildo Singapore and Metalco Singapore) and national offices (e.g. Oilco Australia), there may be separate regional and national competitive strategies and IHRM policies. At the affiliate level, subsidiary business strategies and other internal factors affect subsidiary compensation as a whole, and also impact differently on various levels of employee.

In Figure 13.1, the effect of the external environment is shown at international, regional, national and subsidiary levels. To maintain clarity in Figure 13.1, the external environment of 'other subsidiaries' is not included, although it is acknowledged. In this thesis, the national external environments of Australia and Singapore were analysed in detail, but it is the interactive effect that is the central concern. The arrows in Figure 13.1 are bi-directional to suggest that MNEs attempt to influence their environments (e.g. by appearing before industrial tribunals with unions) as well as reacting to them. In addition to the internal/external linkages, Schuler, Dowling and De Cieri (1993) emphasise interunit bi-directional linkages that might influence compensation design through sharing of HRM policies and resources, and the degree of inter-subsidiary production dependence.

The important elements of the external environment are judged to be industry characteristics facing the MNEs, and the influence of the host nation's government on employment and taxation legislation, the industrial relations system, economic management, and social security systems. The case study findings were generally inconclusive about the direct effect of national culture on compensation design, but it can be argued that facets of national culture are indirectly manifested through a country's legislation, industrial relations, economic management, social security, and employee pay preferences.

The case studies also showed the presence of several compensation systems in the affiliates. Figure 13.1 thus shows that the external and internal environmental features may influence each element of the compensation systems of the local board, expatriates, and host country staff. Some of the host country employees may, in turn, be represented by a union or be within its coverage. The effect of the environment may be tempered by the MNE's union recognition policies and the observance of awards and agreements.

In summary, the underlying assumption of the framework is that the subsidiary management has a choice of compensation design to achieve its goal of maximising its competitiveness (Dowling, Welch & Schuler, 1999), but that some choices may be closed off to the MNE because of external environmental constraints. More choices may be available as a result of environmental changes resulting from pressure of subsidiary management to influence the external environment.

Each of the variables of the framework is now considered in turn, some in sufficient detail to generate propositions. The propositions cover the effect on compensation systems of the MNE head office, host country legislation, industrial relations, economy and incomes policies, and national culture. The propositions are designed to 'state the relations among constructs', and to operate on a more abstract level than hypotheses (Bacharach, 1989:500). During the discussion on the effect of national culture, a separate brief comment is made about the influence of national culture on the provision of employee benefits in Singapore and Australia in the light of recent research by Schuler and Rogovsky (1998).

Propositions for the MNE Head Office Involvement in Subsidiary Compensation Design

A starting point for the explanatory framework of Figure 13.1 is the MNE competitive strategy. While not considered in detail in this research, it is accepted that HRM (including compensation design) is crucial to implementation of the corporate MNE's competitive strategy (Schuler & Huselid, 1997) and that components of any international strategy may include the scope of the MNE operations, its resource deployment, distinctive competence, and synergy (Griffin & Pustay, 1996). The matching of compensation practices to business strategy is not just the preserve of the HR professional in the corporate head office, but is 'a dispersed activity throughout the organisation' (Sloman, 1997:172), including MNE affiliates. One indicator of the matching process in an MNE is its international HRM orientation. One of the initial research questions thus asked how an MNE's international orientation affected the choice of compensation design of a subsidiary. Based on the five cases, the corporate MNE head offices adopted different approaches in relation to affiliate compensation design. These approaches included the design and control of subsidiary compensation or giving advice and approval.

Apart from MNE headquarters' international orientation, other variables may moderate the effect of the external environment on compensation. They include the structure of the MNE, its experience of the MNE in running international business, the amount of resources allocated to compensation design and operation internationally, and the location of the SIHRM function either at the MNE centre or at affiliate level or both (Schuler, Dowling & De Cieri, 1993). Furthermore, other variables may be the HRM philosophy and the specificity of HRM policies developed at the centre of the MNE (if any), and the potential of the subsidiaries' HRM practices to deviate from central policies to accommodate the needs of the competitive strategy, interunit linkages, local environments, and needed employee behaviours (Schuler, Dowling & De Cieri, 1993:732 & 751). For example, in the Foodco Singapore case, it was noted that all the Singaporean affiliate's production was exported to Australia for further processing and that the South–East Asia Regional office and Australian national head office monitored the Singaporean compensation systems. It could be argued that the stronger the production integration of subsidiaries, the greater the intervention in the compensation systems for all staff of the supplying affiliate by an MNE regional or national office (see, for example, Hamill, 1984; Andersson & Forsgren, 1996).

From the literature, we note that the interdependent network features of an MNE (Bartlett & Ghoshal, 1989), and the need for the head office to balance local responsiveness and global integration to be competitive (Nohria & Ghoshal, 1997), are crucial considerations for any study of head office–subsidiary relations. To achieve the local–global balance, an MNE head office uses a variety of informal and formal mechanisms to control its affiliates, some of which can be classified according to the degree of centralisation of decision making, the formalisation of systems and rules for decision making, and 'normative integration' ('socialization of managers') (Ghoshal & Nohria, 1993:28). Extant research has suggested that head office–subsidiary relations can be affected by the importance of the role assigned to the affiliate (Martinez & Jarillo, 1991), its competencies and resources, MNE ownership structure (Martinez & Ricks, 1989), the national origin of the MNE (Ferner, 1997), the dependence of the affiliate on head office for resources (Hamill, 1984; Martinez & Ricks, 1989), subsidiary performance and production integration (Hamill, 1984), and the method of acquisition of the unit (Rosenzweig & Nohria, 1994). In addition to these, the involvement by head office in affiliate decision making may vary according to the subsidiary in question, the type of employee (HCN, PCN or TCN)(Kuwahara, 1985; Kuhne & Toyne, 1985), the type of occupation (Atkinson, 1989), the particular aspect of compensation (such as compensation structures, collective agreements, base pay levels, financial incentives, or any of the employee fringe benefits), labour costs and productivity (Marginson et al., 1995), and the relationship of pay systems to the other HRM functions and to the MNE strategies generally.

Previous work has attempted to assess the scale of intervention in compensation design by head office using a range from 'parent decision' to 'subsidiary decision' (Van Den Bulcke & Halsberghe, 1984; Hamill, 1984). However, an MNE head office decision about the compensation design to be followed in a subsidiary may not necessarily mean that the design mirrors the systems in the head office, although there is evidence (e.g. Oilco and Metalco) that MNEs will transfer HRM practices to subsidiaries to get consistency between the MNE head office and its affiliates. When an MNE headquarters does not transfer its practices, the MNE subsidiary practices tend to follow those of local firms, rather than those of other affiliates in the MNE (Taylor, Beechler & Napier, 1996). Thus the three choices for the MNE head office in relation to affiliate compensation include (1) resemblance of systems to those of the parent MNE (ethnocentric), (2) conforming to host country practices (polycentric), and/or (3) adherence to a world-wide standard (global) (Rosenzweig & Nohria, 1994:229). Taylor, Beechler and Napier (1996: 966–7) have expanded the application of these three choices by using the terms 'exportive SIHRM' (high internal consistency and low external consistency), 'adaptive' (low internal and high external consistency), and 'integrative' (taking the 'best approach' — high internal consistency and moderate external consistency).

As previous authors have suggested, Taylor, Beechler and Napier (1996) state that the choice which the MNE parent makes may depend on the strategy of the MNE, the level of interdependence and resource exchange between sub-units, and the perception of the HRM competence by the top management as a resource that can be used outside the home country to gain competitive advantage (pp. 967–9). The more a subsidiary is dependent on the MNE parent for resources, the more control over HRM would be exercised by head office (p.974). In setting up a greenfield site, an MNE affiliate is more likely to install HRM practices similar to those of the MNE parent than it would in an acquired established firm (p.976) (see also Rosenzweig and Nohria, 1994). Taylor, Beechler and Napier (1996) proceed to argue that HRM practices are easier to transfer overseas from head office to a subsidiary when there is a national cultural similarity, but, as mentioned earlier, Rosenzweig and Nohria (1994) found only weak support for a hypothesis that resemblance to local HRM practices is negatively related to the Culture Distance between the parent country and the host nation (p.237). Head office HRM practices may also be more evident for occupations in the affiliate that are crucial to the MNE's performance and when the host nation legislation does not constrain transfer of HRM practices (Taylor, Beechler & Napier, 1996: 978).

Rosenzweig and Nohria's (1994) findings on 249 US affiliates of MNEs supported hypotheses that affiliate HRM practices will more closely resemble those of local competitors than those of the parent MNE in its home country (p. 231), that 'time off' provisions and 'benefits' will tend to conform to local practices whereas this was less the case for executive bonuses because of equity issues across the MNE (pp. 232–3). Perhaps the most significant finding was the lack of support for the hypothesis that greater head office control of an affiliate is likely to result in less use of local practices (p.238). This was supported in a study by Putti, Singh and Stoever (1993) of the perceptions of managers of 78 US, European and Japanese MNE subsidiaries based in Singapore. The study concluded that allowing greater autonomy to an affiliate does not necessarily mean its HRM practices will be more localised (p.115).

In the context of the literature just discussed, we now turn to the findings about the head office role in compensation design in the case study MNEs. In Oilco Australia, the corporate MNE head office in Europe *decided* the compensation package for the chairman, and *approved* the conditions and any regrading of the top 'letter' category positions in the affiliate. The procedures for the payment of expatriates were administered from Europe. There was no corporate MNE head office involvement in non-managerial compensation designs, apart from receiving data on costs at the annual presentations. The managerial compensation system was decided mainly by the subsidiary. The key transfer of compensation design from the parent Oilco to the Australian affiliate was the use of the Hay salary structure, which was adapted locally. The salary rates were set locally and geared to the Australian labour market. All other payment and employee benefits systems conformed to local Australian practice, particularly the introduction of enterprise agreements.

The relationship of Oilco Singapore to the European corporate MNE head office was similar to that of Oilco Australia. Expatriate packages were set according to the corporate MNE guidelines. The conditions for top management were agreed with head office, and communication took place over the use of the Hay system. Like Oilco Australia, the main corporate head office interest was in the cost of labour. There was no direct involvement in the structures for the non-managerial employees. While generous, the collective bargains and salary structure conformed to local practice. The two conclusions here are, first, that a common senior level salary structure existed across the MNE, irrespective of local national cultures, because this assisted in the mobility of staff between units. Second, the corporate head office was more concerned about the pay and conditions of employees at the top of the affiliate than the pay system of non-managerial staff. The negotiating and signing of collective agreements in both subsidiaries was done locally.

With the European owned Foodco, the compensation system for the Foodco Australia manufacturing plant was determined locally. The salary structure of the managerial staff was administered from the Australian headquarters, and was a different system from that operating in the parent home country. The negotiations of the agreements with the unions for the non-managerial staff (resulting in letters of agreement with the unions) were done and signed off locally. There was no direct contact with the corporate MNE head office about these agreements. There were no transfers of compensation or benefits systems from Europe for any occupational level, apart from the possibility of buying shares in the European parent. By contrast, Foodco Singapore was subject to more external intervention. While the local affiliate negotiated the collective agreement with the unions, the Regional Director approved the final design for non-managerial staff. The Foodco Australia HRM Director was consulted about the proposed salaries planned for the four managers on the site for the following year. There was no transfer of compensation or benefits design from the Australian parent company, or from the corporate European parent, as local practice was followed at all levels.

Buildo was an Australian MNE of which Buildo Australia was a part. In the manufacturing affiliate, the management salary system was common across the steel division of the MNE in Australia, leaving the subsidiary little choice but to use this. Negotiations for the enterprise agreement were performed locally in conjunction with the Special Building Products Group head office. There was no intervention by the corporate MNE head office. By comparison, the involvement by the parent MNE Buildo into the Buildo Singapore compensation systems was greater. The Managing Director's (MD) conditions were set by the Australian corporate MNE and its South-East Asian regional office in conjunction with the Buildo Singapore board. While the Australian corporate MNE monitored the managerial pay, the final approval of the management packages was by the Buildo Singapore board. The corporate MNE head office was not otherwise involved either in the transfer of compensation practice or controlling the systems. The compensation systems were essentially locally based. No Australian pay systems were thus transferred into the Singaporean affiliate from Australia, the main involvement being in the MD's compensation.

Metalco Australia was a unit in one of the operating companies of the Australian-owned Metalco MNE. The compensation in Metalco Australia was subject to some corporate head office control and a common company-wide compensation strata system. Although the strata system applied across the MNE in Australia, negotiation of collective agreements was done locally. In contrast, Metalco Singapore was a self-contained affiliate within the Singaporean region. All compensation systems were devised locally and set to local conditions. The only link back to the Australian corporate MNE was the setting of the salary and conditions of the Metalco Singapore General Manager within the strata system. The Managing Director of the Singapore holding company also approved the General Manager's benefits and local allowances, and the general pay levels for the company. Apart from the strata system, no Australian compensation systems were transferred into Singapore.

High Tech was also an Australian-owned MNE. The MNE corporate head office centralised the compensation design for the High Tech Australia company. The packages for MDs in Australia, the Americas and Asia and their direct reports were determined at Board level, whereas other staff salaries were recommended by senior line management. The enterprise agreement was negotiated under local Australian legislation. Apart from the MD for Asia, the corporate MNE head office in Melbourne played little role in the compensation design for High Tech Singapore. The Singaporean regional office approved the compensation design for the High Tech Singapore CEO. Compensation systems for other staff in the affiliate were determined by the CEO to conform to local conditions. No compensation systems were imported from Australia.

From the cases, except for the linkages between corporate, regional and national head offices and the affiliates, there was no significant evidence of other subsidiaries relying on each other for information or resources on compensation design. The only reference was by an Oilco Australia interviewee who referred to exchanges of information with other subsidiaries about managerial salaries and grade points. Specialist HR resources directed at the design and operation of compensation systems generally seemed to be a function of size of the MNE. Both subsidiaries of Oilco had large specialist HR teams. While Foodco Australia had a specialist HR function at subsidiary level and at the national Australian head office, human resource activities at Foodco Singapore were handled by line managers. Buildo Australia relied on advice by a Group head office HR professional, but like Buildo Singapore at the time of the first interviews, had no dedicated HR function. Metalco Australia had several HR professionals in the corporate Australian head office, a team of professionals at the processing company head office, and on site at Metalco Australia. By comparison, Metalco Singapore was too small to carry a HR specialist. A similar argument could be made for High Tech which only latterly appointed a HR professional. Prior to this, the High Tech company and Singaporean affiliate divided the HR function between line management. For all case subsidiaries, the negotiation of local union collective agreements was not confined to those affiliates with specialist HR professionals, but the approval of senior managerial salaries did involve corporate, regional or national head offices and some input from HR professionals, where appropriate.

From the cases and the literature, we can now develop a series of propositions concerning the role of the head office and subsidiary compensation. Based on the Oilco Australia, Oilco Singapore, and Buildo Singapore cases and the work of Schuler, Dowling & De Cieri (1993), Taylor, Beechler and Napier (1996), Kuwahara (1985), and Kuhne and Toyne (1985), the following proposition is developed:

Proposition 1
Irrespective of a parent MNE's general international orientation, the more senior the managerial position in a subsidiary, and the more crucial it is to the performance of the subsidiary, the more likely that an MNE corporate head office will devote resources to deciding or approving the compensation design and/or level of this position.

While the IHRM literature and research has concentrated on managerial and professional employees, it should not be concluded that head offices do not get involved in the management of non-managerial employees (Ferner, 1994). From the findings in Oilco, Buildo, Metalco, and High Tech (but not Foodco) cases, and Schuler, Dowling and De Cieri. (1993), we can formulate another proposition:

Proposition 2
The lower the level of a position in the organisational hierarchy of a subsidiary, the more the parent MNE will adopt a polycentric international orientation towards compensation design of this position.

From the Oilco Australia and Singapore, and Metalco Australia and Singapore cases, and the research reported by Edwards, Ferner & Sisson (1996), Schuler, Dowling and De Cieri (1993), Taylor, Beechler and Napier (1996), and Walsh, Zappala and Brown (1995), we can postulate:

Proposition 3
The greater the mobility of professional and managerial staff between MNE units, the greater the likelihood of an ethnocentric approach by the MNE parent to the compensation of these staff, and the transfer and formalisation of the parent head office compensation system for these staff to all affiliates.

If Proposition 3 was empirically supported, this would suggest a constraint on the MNE subsidiary to adapt its managerial and professional compensation systems to (1) the needs of the affiliate's competitive strategy, (2) the differences in the local external environment, and (3) the shaping of employee behaviours needed to achieve the affiliate's competitive strategy.

Industry Characteristics and MNE Subsidiary Compensation

In their integrative framework of SIHRM, Schuler, Dowling and De Cieri (1993) include industrial characteristics as an exogenous variable. The characteristics are taken to include the type of business or industry, the nature of competitors, and the extent of change (p.738). In their analysis of the effect of organisational context on HRM practices, Jackson and Schuler (1995) also include industry characteristics as a major external variable, but this time referring to whether a company is private or public, the industrial sector it occupies, and its exposure to change. Because of the pervasiveness of industry characteristics, Dowling, Welch and Schuler (1999:289) argue that exogenous factors 'can exert a direct influence on endogenous factors, SHRM strategy and practices, and multinational concerns and goals'. Figure 13.1 shows a two-way (rather than one-way) interaction between the internal and external factors affecting affiliate compensation, one argument being that while the extent of competition may affect the business strategy of an affiliate, the actions of a subsidiary may also influence the extent of competition faced by other MNEs in the industry. The intended joint venture between BP Amoco and Caltex Australia for the blending, packaging and warehousing of lubricants in Australia is one possible example (Caltex, 1999).

All case study MNEs were located in the private sector, so their compensation systems were less subject to host country government control than those for public/civil service employees (Haque, 1999). While the terms 'multidomestic' and 'global' oversimplify the complexity of MNE structures and strategies (Schuler, Dowling and De Cieri, 1993), Oilco appeared to have more global attributes than did the other four MNEs, with common managerial pay structures and centrally designed expatriate compensation to support high levels of expatriate mobility between units. All case MNEs operated in highly competitive product markets. It is difficult to draw direct links from this feature to specific pay system design here, but reduction in salary levels for higher paid employees in High Tech occurred during recessions. Oilco

Australia led the breakaway from centralised oil industry pay agreements to gain more control over labour costs, and incentive schemes in Foodco Singapore and Buildo Australia and Singapore arguably were attempts to improve subsidiary competitiveness (Rimmer et al., 1996).

Space limitations do not allow a full discussion of all dimensions of change in the case MNEs, but the need to cope with technological change was arguably an impetus for the introduction of team-based structures, greater employee flexibility and competency-based pay in Oilco Australia and the Australian High Tech manufacturing site (Ledford, 1991). Strong arguments can therefore be made for the inclusion of industry characteristics in any explanatory framework of MNE compensation design.

Proposition for Employment and Taxation Legislation and MNE Subsidiary Compensation Design

From a compensation viewpoint, the discussion by Schuler, Dowling and De Cieri (1993) of the 'political' exogenous factor only in terms of political stability and SIHRM underplays the role of government in compensation design. This is apparent in Australia by the positions adopted by governments of different political persuasions while participating in National Wage Cases over wage levels and principles before the Australian Industrial Relations Commission. Furthermore, the government is a major employer in its own right and its policies may influence other employers, including MNE affiliates. Political colour has also affected the type of employment and industrial relations legislation passed, which in turn has affected the role of industrial tribunals, the rights of unions, and the type of collective and individual agreements that were possible. In Singapore, the government had adopted a clear position on the role and type of unions, and participates in the National Wages Council proceedings as well as receiving its recommendations. Similarly, the bonuses given to public servants signal the government's view of the country's capacity to pay.

In Chapter 3 of the thesis, it was argued that the MNE subsidiary in a host country may face a legal environment that consists of home and host nation laws, regional and international legislation, treaties and conventions. While the laws of a host nation affecting compensation might be taken as 'given', the MNE may have some input, say through employer associations, in trying to influence local law (Masters, 1987). Host country employment legislation may affect compensation by setting legal minimum wages and national conditions of employment, mandatory bonuses, equal pay, and the requirements for a wages-work bargain (Morgenstern, 1984; Creighton, Ford & Mitchell, 1993).

When considering the Singaporean and Australian legal environments, we noted that the Singaporean Employment Act (1968 and subsequently amended) specified the minimum conditions of service. It was also stated that managers, civil (public) servants and certain other categories were excluded from coverage as were those earning more than the set limits. The Act did not set any minimum pay levels or equal pay requirements. Benefits paid in kind such as employer-provided housing or cars were taxable, and while not actually affecting compensation design, the mandatory employer contribution to the Central Provident Fund (CPF) markedly increased the cost of labour.

In comparison, in Australia, minimum rates of pay and basic employee benefits are mainly set by the award system. Federal and state legislation covers annual leave, long service leave, parental leave, equal pay and various mechanisms for setting minimum entitlements in agreements (Creighton & Stewart, 1994). MNE affiliates must also pay any tax necessary under the Fringe Benefits Tax provisions. Other taxation legislation may affect income, benefits and capital gains (Gomez-Mejia & Balkin, 1992). Capital gains under employee share plans may be liable for tax under income tax laws. Other laws in some countries may prohibit forms of compensation such as stock option plans (Schuler, Dowling & De Cieri, 1993).

In assessing the effect of legislation on compensation design in the case companies, in Oilco Australia, legislation had affected the way certain parts of compensation had been packaged. This particularly applied to top executive benefits because of the Fringe Benefits Tax (FBT), and new superannuation laws. The company had an equal opportunity policy and equal pay. The interviews in Oilco Singapore revealed that the S$1500 per month limit for the coverage of the Singaporean Employment Act applied only to the employees in the bottom half of the nine grade salary structure of Oilco Singapore's unionised employees. However, the MNE exceeded the Act's minima and gave the enhanced conditions to all employees on the salary structure. Oilco

Singapore observed equal pay despite the absence of legislation, and revised its retirement age according to the 1993 Act.

In Foodco Australia, the interviewees stated that the subsidiary observed the Australian federal and state legislation relating to equal pay and leave. These, together with the minimum rates in awards, did not pose a major constraint for the company as it paid above award rates. The introduction of FBT and new superannuation laws had, however, caused a review of the managerial benefits and the affiliate's superannuation policy. In Foodco Singapore, the subsidiary was not unionised for the first interviews, but followed the industrial relations laws and procedures on recognising unions for bargaining at a later date. The unit applied equal pay principles and considered any minimum conditions legislation irrelevant, as it had paid above the market levels to remain non-unionised (without success).

In Buildo Australia, the minimum rates of the Metal Industry Award provided the main constraint on pay systems for unionised staff. The FBT caused a redesign of the car policy, medical scheme and low interest housing loans, and the new superannuation laws had a similar effect. Like Oilco Australia, this subsidiary took advantage of new industrial relations legislation to negotiate an enterprise agreement. In Buildo Singapore, the managers interviewed took the line that the minimum conditions of the Employment Act had to be observed, and that contributions to the CPF had to be made according to the rules. Apart from this, the subsidiary was not unionised and designed its own systems, which included payment of the Annual Wage Supplement.

Metalco Australia had a clear company policy to observe any laws which applied to the MNE; a stated policy on equal pay and opportunity; and paid sums above award minima even though these appeared to conflict with its paid rates agreements. FBT had an effect on salary packaging, and superannuation had undergone a similar review. Legislation in Singapore was not seen as a major constraint in compensation design by the General Manager of Metalco Singapore, as the Employment Act was observed and CPF was paid.

The state and federal awards were the constraining minima for High Tech Australia. Equal pay was not an issue as awards no longer have separate female and male rates, but FBT had a major effect on High Tech and allowances had to be reorganised. An interviewee outlined the arrangements for managers to minimise income tax by salary sacrificing arrangements for car leases. High Tech Singapore managers spoke of observing the Employment Act without problems and paying Annual Wage Supplements. As this Singaporean subsidiary was small, it had great flexibility in the design of individual compensation packages.

During the case study interviews, no interviewee mentioned international MNE codes of practice, conventions or, where relevant, parent country legislation or transnational law, but it did appear that the Singaporean MNE subsidiaries had noted the minimum conditions of the Employment Act and incorporated them into pay and benefits provisions. This is understandable as employees can make complaints about breaches to the Ministry of Labour (Manpower) and have them investigated. In Australia, there are federal government inspectors who can seek access to company premises to check pay records for under-payment and award breaches. Further, employees can seek information from state and federal industrial relations/labour departments and trade unions about the appropriate conditions of service for particular industries. As Florkowski and Nath (1993:311) argue, employment rights 'are meaningless if they not enforced'.

The imposition of taxation such as the FBT can cause companies to restructure benefits. Even overseas expatriate staff working in Australia are subject to FBT under certain conditions. Minimum conditions affect all employees in the sense that their compensation has to be above these minima, but arguably, managers who were in receipt of more expensive fringe benefits in Australia may have been affected more by the FBT legislation. However, apart from the inclusion of the AWS in Singapore, there was no legislation in either country about pay structures and mix. Nevertheless, the MNE subsidiary has little choice but to comply with the legislative requirements of the host country that do exist, although it may try to maximise its discretion to achieve business goals and/or follow MNE IHRM strategies and policies. Alternatively, it may assess legal monitoring systems and probability of prosecution for violation of host nation laws, or even reject potential locations on the basis of their legal systems (Florkowski & Nath, 1993).

The greater the range of employment and taxation legislation there is in the host country, the more this will impact on the MNE subsidiary. Levels of direct taxation may result in tax equalisation or tax protection for the PCN and the HCN (Dowling, Welch & Schuler, 1999) or 'very creative and innovative new compensation schemes' in attempts to get around strict tax laws (Bloom & Milkovich, 1999:293). Indirect taxation may influence the host nation's cost of living and the allowances payable to an expatriate. As locally owned firms are subject to the same laws, MNE compensation practices are likely to be similar to those of locally owned firms for those elements subject to legislation. This will force the MNE to become more polycentric in international orientation (Schuler, Dowling & De Cieri, 1993). This appeared to be the case for all subsidiaries in Australia and Singapore for non-managerial staff compensation. While research is limited on the way MNEs manage HRM in relation to host country legislation, using the Florkowski and Nath (1993:310) dimensions of the international legal environment, a fourth proposition can be postulated:

Proposition 4
The greater the range of regulatory complexity and regulatory relevance of the employment and taxation legislation affecting compensation design in a host nation, the more likely an MNE is to adopt a polycentric international orientation to IHRM and host nation compensation practices in its subsidiaries.

Proposition for the Influence of Industrial Relations Systems on Subsidiary Compensation

The fourth supplementary research question for the thesis related to the effect of the host country industrial relations systems on MNE affiliate compensation. Figure 13.1 reveals the interaction of national government and, more indirectly, national culture with an industrial relations system. From the case studies, the most significant features were the role of industrial tribunals, dispute resolution systems, union rights, scope and strategies, the nature of collective agreements and awards, and the recommendations and principles of the AIRC NWC and the Singaporean NWC.

There are some initial complications in studying the impact of an industrial relations system on MNE subsidiary compensation design. First, there is a shortage of research studies on MNE subsidiary industrial relations practices at the workplace level on which to ground a proposition (Dowling, Welch & Schuler, 1999). Second, there are problems in defining what an industrial relations system is, and in questioning the relevance of early definitions like Dunlop's (1958) in the 'process of internationalization' (Chaykowski & Giles, 1998:3). There is then the level at which the system operates, which may be at international, regional, national, industry, company, or enterprise levels. To reflect this, the locus of decision-making of MNE industrial relations (IR) policies may be at international corporate MNE head office, national head office, subsidiary and site levels (Gunnigle, Brewster & Morley, 1994), as well as at a regional MNE office level. Another complexity is that the degree of centralisation of decision-making may vary for each element of IR policy, as Hamill's (1984) work on British subsidiaries of 30 foreign MNEs shows. Because an MNE will be faced with a different industrial system (as well as union strategies) in every country in which it is located, no matter where its industrial policies are formulated, the MNE will inevitably have to take local requirements into account (Dowling, Welch & Schuler, 1999; Veersma, 1995). The outcomes of the subsidiary's industrial relations system in the form of pay and conditions have to be competitive in the local labour market (Bomers & Peterson, 1977).

Hamill (1984) suggests five structural factors that may affect where IR policy is made in the MNE. They are the degree of integration of production, the home country of the MNE, the form of establishment of the affiliate, its profitability, and its dependence on the parent for investment and financing (pp. 33–4). In addition, MNE head office control of industrial relations may depend on the MNE's technology and organisation, its product, the strategic significance of the subsidiary in terms of component supply, sales or use of output, its age, its performance, and the differences in cultures between host and home country nations (Dowling, Welch & Schuler, 1999; Bean, 1994; Frenkel, 1993b). In Hamill's (1984) study of 30 British subsidiaries of foreign MNEs, 21 firms were unionised. Of these, 18 could negotiate and bargain without head office involvement, but only 14 of the 21 could decide the structure of bargaining autonomously (p.31). On the recognition of unions for all 30 companies studied, 11 of the 30 had either to consult, seek advice, or act on a decision from head office (p.31).

Understanding the role of government in industrial relations, the ideological leanings and structures of the relevant unions, the scope and processes of collective bargaining, and the legal and societal context in which industrial relations occur, are all important for the MNE (Dowling, Welch & Schuler, 1999). As mentioned earlier, industrial legislation usually reflects national government IR policy and ideology, and may cover the tribunal procedures for dispute resolution, the rights of unions, minimum conditions of work, and the legality of compulsory union membership, closed shops and the check-off system. Local laws may also indicate the MNE affiliate's discretion to minimise union intervention and collectivism, and 'opt out' of the formal industrial relations system. The discussion of the industrial relations systems of Singapore and Australia in Chapters 5 and 6 and in Foodco Australia clearly illustrates this. In Chapter 3, we noted that key decisions for the MNE are the extent to which it centralises industrial relations strategy, and adopts world-wide policies on union recognition, avoidance, and collective bargaining.

In Chapter 5 (on Singaporean Compensation in its Local Context), it was suggested that once an MNE recognises unions and starts to negotiate a collective agreement, any breakdown in the process will end up with the Ministry of Labour, and, if necessary, with the Industrial Arbitration Court (IAC). The IAC will arbitrate using the National Wages Council recommendations and local legislation as the bases for its decisions. In Chapter 6 (on Australian Compensation), we argued that the larger the workplace, the more likely it was to be unionised and to have a high number of unions represented. However, apart from the constraints of awards, legislation, and union presence, the MNE has some choice of style of industrial relations it wishes to foster (Poole, 1986; Godard, 1997). Through recent legislation, companies in Australia now have more choice in negotiating a variety of pay practices at enterprise level. However, like Singapore, any formal agreement is subject to local legislation and the possible scrutiny and approval of an industrial tribunal. In 1995, under the (Australian) Industrial Relations Reform Act 1993, any new certified enterprise agreement had to be in a workplace covered by a federal or state award, pass a 'no disadvantage' test (so that employees were not worse off), and not be contrary to the 'public interest'. These constraints force some conformity of compensation practice.

From the case studies, some obvious conclusions can be drawn. First, once an MNE agrees to recognise and bargain collectively, it will normally end up with at least two compensation systems in a subsidiary or company — one for unionised employees and one for non-unionised staff. This applied in Oilco Australia and Singapore, Foodco Singapore, Buildo Australia, Metalco Australia, and the company, High Tech Australia, all of which had collective agreements. By contrast, Foodco Australia had 'letters of agreement' with the unions. Second, where unions have coverage of a particular set of occupations across an economy, and the industrial relations system encourages collectivism, to go 'outside' the formal system to design unique compensation for the subsidiary requires high levels of managerial commitment, and industrial relations technical skills and resources. This arguably applied to Foodco Australia. Third, entering into registered collective agreements will formalise the pay structures within the compensation system, making them harder to change quickly and more accessible to external parties. Examples here are Oilco Australia and Singapore, Foodco Singapore, Buildo Australia, Metalco Australia, and High Tech Australia. The recognition of unions in these subsidiaries may have been due to the custom and practice of the industry in which they were part, the degree of unionisation for that industry, the ease of member recruitment, the Australian award system, employment legislation, local union strategy, or the size and occupational structure of the unit.

In the case study companies with collective agreements, the management negotiated their agreements with local, and not international unions, and had them certified by local industrial tribunals. It could perhaps be assumed that the provisions of the agreements were designed to facilitate the goals of MNE corporate and affiliate competitiveness, labour flexibility, cost efficiency, and the attraction, retention and motivation of the workforce from the local labour market. Nevertheless, most content of the MNE agreements was similar to many other local collective agreements examined by the author, and did not include any feature obviously transferred from an overseas MNE corporate head office (in the case of Oilco Australia and Singapore, and Foodco Singapore).

Even if the MNE head office had a centralised approach to industrial relations, or a union attempted multiple negotiations with an MNE 'in several countries simultaneously' (Bean, 1994: 204), any agreements would have to conform to the industrial and legal requirements of the country in which they operated. This is not to say that foreign owned firms never pursue industrial relations policies that are different from domestically owned firms (see, for example, Veersma, 1995 at pp.323–4). There is evidence that differences do occur, perhaps due to nationality or the amount of resources devoted to the HRM function by the MNE (see, for example, Enderwick & Buckley, 1983; ILO, 1976). However, where local and multinational companies are organised and practise collective bargaining, 'the pressures for parity in wage levels may be strong' (ILO, 1976:3), and they may both use host country national agreements for pay determination (Turner, Dart & Gunnigle, 1997). There is also US empirical evidence that where employees in MNE affiliates are represented by unions, then there is a tendency for the local (rather than parent MNE) HRM practices to be followed (Rosenzweig & Nohria, 1994:236). Thus MNE policies on 'basic pay, holidays, retirement, participation and consultation are likely to be constrained by national conditions and institutions' (Ferner, 1994:94). From this discussion, propositions five and six are suggested:

Proposition 5
The extent to which the industrial relations system of a host country influences the compensation design of an MNE subsidiary depends on whether the subsidiary recognises and negotiates with host country trade unions.

Proposition 6
The more an MNE subsidiary engages in formal collective bargaining in a host nation, the more likely that its collective agreement/s will reflect the main compensation features of collective agreements for similar staff of locally owned host country organisations.

Propositions for the Effect of Economic Management on Subsidiary Compensation

Earlier in the thesis, it was acknowledged that the external economic environment could have a significant impact on compensation systems particularly through its effect on the product and labour market for the MNE. The posing of a supplementary research question reflected this. In relation to the labour market, the impact on compensation could be manifested through the effect of economic policies on a range of factors such as employee expectations about wage and salary increases, the bargaining power of the unions, and the future of specific industrial sectors (Kochan & Barocci, 1985). The level of demand for, and supply of, qualified people in occupational labour affects the levels of earnings and unemployment, although governments may adopt education and immigration strategies to alleviate difficulties (Ministry of Information and the Arts, 1999). Employers may also adopt flexible employment or family-friendly arrangements to increase labour participation in particular markets (Ministry of Manpower, 1999). However, the discretion of employees, unions or employers to make compensation policy could possibly be constrained directly or indirectly by a national government's incomes and prices policy (as part of its economic management of inflation) which may limit the permissible pay increases by an MNE affiliate in a given period (Elvander, 1990). The variables of incomes policy, inflation, state of occupational labour markets, level of occupational earnings and unemployment are recorded as important variables in Figure 13.1.

From the study of the Singaporean and Australian external environments, the roles of the National Wages Council (NWC) and the Australian Industrial Relations Commission (AIRC) were discussed, and the effect of the NWC in Singapore and the AIRC principles in Australia were raised with the case study subsidiaries. Taking the Singaporean affiliates first, Oilco Singapore followed the recommendations of the Singaporean NWC by incorporating more variable pay in its collective agreement after 1988, gave the recommended pay increases from 1972–85, and arguably observed three of the five flexible wage principles suggested in the 1986 NWC recommendations. The non-unionised staff had a different basis of pay which still included a major variable component. As the NWC has not recommended annual quantum rises for the economy since 1986 (only qualitative guidelines), the company set its pay levels in relation to the local market. In Foodco Singapore, prior to unionisation, the affiliate's policy was to use NWC recommendations as a guide, but not follow them to the letter. However, the union now used the NWC recommendations as a basis for bargaining and the MNE had proportions of variable pay in its systems. In Buildo Singapore, the MD spoke of taking the NWC guidelines into account in pay system levels and mix, but concluded that the labour market was the 'main driving force in pay policy'. In the smaller Metalco Singapore, NWC decisions were noted as were the rises given to the Singaporean Civil Service, but the capacity to pay was a dominant influence on pay levels. Despite this, the company still had a variable component in its systems. High Tech Singapore management did not consider that NWC recommendations had much impact on the affiliate as annual reviews were based on market movements as well as performance.

In Australia, the AIRC through its National Wage Cases (NWC) awarded national wage adjustments based on movements in the consumer price index between 1975–81, at first quarterly and then six-monthly, and then again from 1983–87. Since that time the AIRC no longer grants 'across-the-board' increases, but only 'safety net' increases to minimum rates awards (Deery, Plowman & Walsh, 1997:8.32). This mainly benefits lower paid employees who cannot gain rises from negotiated enterprise agreements. In addition to this activity, from 1987–89 the AIRC issued principles for the reform of the award system.

When interviewed, Oilco Australia managers argued that the economy affected pay levels rather than design, especially for non-unionised staff whose compensation was market driven, although economic indicators like inflation were also studied. By comparison, the AIRC NWC pay recommendations and principles had an immediate impact on award employees as the unions pursued the announced pay rises and then cooperated in the restructuring of their awards. In Foodco Australia, 'The Accord' had the effect of moderating wage increases, but had not affected compensation structures. In the past, AIRC NWC decisions had been noted, but the company had a policy of minimising the role of unions and tribunals through its own plant agreements which were reviewed separately. The AIRC had no impact on managerial systems.

The distinction between unionised and non-unionised staff was reflected in the effect of the AIRC NWC recommendations on Buildo Australia. In the past, the AIRC increases through the Metal Industry Award immediately flowed on to the industrial staff irrespective of the subsidiary's capacity to pay. While 'The Accord' had the result of holding back industrial pay increases and forcing change in the award system, management rises continued to move ahead. Metalco Australia was another company that attempted to minimise the union's role and had seen 'The Accord' as an impediment to its strategy. Prior to the issuing of individual contracts after 1994, its unionised workforce received the indexed AIRC increases from 1983–86, and other rises from 1988–92 during the reform of work practices. The clerical award rates were also increased as a result of AIRC principles and recommendations whereas non-unionised staff received rises under the centralised Metalco strata (i.e. job evaluation) system. Finally, in High Tech Australia, national incomes policies had no major effect on non-award staff, according to the managers interviewed, but AIRC NWC principles had been followed for clerical and industrial employees, and an enterprise agreement concluded for the manufacturing function.

A number of general conclusions can be made about the effect of incomes policies on compensation design in the MNE subsidiaries and companies studied. First, all the units had more than one compensation system and the Singaporean NWC and the Australian AIRC recommendations affected each system in different ways. There was more discretion to fix pay levels and mix for non-unionised/non-award employees in unionised companies and all staff in non-unionised firms. Second, the existence of a collective agreement intensified the effect of the Singaporean NWC and AIRC recommendations on the subsidiary. This is because in the event of a dispute between the company and the union, the Industrial Arbitration Court in Singapore will use the NWC recommendations as a guide for arbitration without appeal. In Australia, the AIRC will obviously assess a dispute according to industrial legislation and its own NWC principles. Third, MNE affiliates could devise a pay strategy to minimise the effects of the NWC and AIRC by remaining non-union in both countries, negotiating informal collective agreements directly with the workforce or paying over the awards in Australia (like Foodco Australia), or operating with individual contracts only. The Singapore NWC recommendations are 'guidelines only' and 'are intended to serve as a general basis for negotiation' (NWC, 1992:ix), but have the backing of government and the participation of MNE employers in their formulation. In Australia, the subsidiaries could ignore the decisions of the AIRC, but if unionised and working with registered AIRC awards and agreements, would be unlikely to be allowed to do so. Fourth, observance of income policy principles may have social responsibility overtones, especially if the employer is large and high profile. Excessive pay increases when government and tribunals are advocating restraint may result in bad publicity, especially in a small country like Singapore. Finally, incomes policies rarely include guidelines on employee benefits.

The MNE subsidiary operates within the constraints of the labour markets and government and industrial policies of the host nation in which it is based, and, although national public policy is an important influence on compensation systems (Bloom & Milkovich, 1999), there may still be some discretion for compensation design for all occupations. For the affiliate, compensation is a cost to be minimised and a lever to influence behaviour, and it might be assumed that the MNE subsidiary will use any compensation strategy that will facilitate the business goals of the corporate MNE or the affiliates. While there is little research on the reaction of MNEs specifically to incomes policies and government intervention in the wage-setting process, Milkovich and Newman (1996:499) argue that:

> Those companies that seem to suffer the least disruptions are the ones that have sound and flexible compensation systems in place, well-thought-out policies that demonstrably have been followed in the past.

This leads to a seventh proposition:

Proposition 7
The propensity of an MNE subsidiary to follow the national incomes policy requirements of a host nation is dependent on the MNE's degree of discretion to set appropriate pay levels and pay mix to achieve its corporate and subsidiary MNE business goals and IHRM strategies.

The Effect of Social Security Systems on MNE Compensation Design

In the previous chapter, the differences in employee benefits provided by the Australian and Singaporean MNE subsidiaries were analysed. It was noted that both national governments had a substantial effect on the benefits offered through government policies on social security, retirement and health, and employment legislation covering sick, maternity, and annual leave. The most significant differences between the two countries affecting employee benefits, however, were in the respective governments' approaches to the provisions for retirement and public health. These variables are therefore included as contingency factors in Figure 13.1.

The interlinking of national culture with government philosophy on retirement provision and public health is arguably most notable in Singapore. The 'thrift' of Hofstede and Bond's (1988:17) Confucian Dynamism is evident in the long-standing Central Provident Fund (CPF) to which workers and employers contribute in order to provide financial security on retirement. The Singaporean Government does not contribute to this and so the cost is borne solely by employer and employee. The employer's contribution of up to 20 per cent is thus a significant labour overhead, and it was therefore not surprising that no Singaporean case study affiliate made additional contributions to private pension funds. Another interrelationship of external variables is also evident in that the amounts of employer and employee CPF contributions are changed by the Singaporean Government according to the state of the Singaporean economy, as was the case in the 1998 recession when the employer's contribution was reduced by 10 per cent (Foo Siang Luen & Kwok Toi Chi, 1999).

Singapore's health care financing philosophy system is based on 'individual responsibility, coupled with help from the community and government for those unable to pay on their own' (Ministry of Information and the Arts, 1999:249). As noted earlier, Medisave is a compulsory savings scheme in which the employee contributes 6–8 per cent of earnings as part of CPF contributions. Funds can be withdrawn from these savings to pay for hospitalisation expenses for the employee or his/her family. The Singaporean case study subsidiaries shared the cost of the Medisave contributions as part of CPF, but all supplemented this with additional health insurance cover and direct medical services (Oilco Singapore).

In the Australian subsidiaries and companies, retirement provision was made through a variety of superannuation schemes to which the employer and employee contributed. The Superannuation Guarantee (Administration) Act (1992) gives mandatory superannuation coverage using the same principle, although the introduction of the legislation led to the review of existing private superannuation arrangements in some case companies. According to their income from private sources and assets held, retired people in Australia may be eligible for a publicly provided pension and other benefits. While there is a Medicare public health scheme to which all employees contribute a fixed percentage according to income, some Australian MNE subsidiaries and companies only paid for additional private health insurance for the higher categories of employee.

Employee Compensation Preferences and MNE Subsidiary Compensation Design

Only in the Oilco Australia case was it noted that employees were asked to cooperate in the redesign of the variable component of their compensation system. The staff were non-unionised and paid according to their place in the Hay administrative and managerial pay structure. In theory, it could be argued that other collective agreements in the Australian and Singaporean companies and subsidiaries were designed by management and unions, with the unions consulting their memberships. Arguably the preferences of employees may have been based on values on income equality, individualism versus collectivism, and acceptance of risks. Thus wide grade bands in Singaporean collective agreements are accepted compared with the more narrow salary ranges in Australia. Although small samples were used, Mamman, Sulaiman and Fadel (1996) found in a survey of three Asian countries and Australia, that there were significant differences between the Asians and Australians as to their preference for educational qualifications, length of service, and use of collective bargaining as the basis for the pay system (p.115). The acceptability of the pay system can thus be an important influence in its design and employee satisfaction (Heneman, 1985).

However, Bloom and Milkovich (1999) argue that if the national culture of a nation is sufficiently diverse, two companies operating in the same national culture might develop very different organisational cultures through running distinct pay systems, and be able to attract different workforces who share the unique values and competencies necessary to support the MNE's strategic goals (p.293). Moreover, there are difficulties in distinguishing the effects of personality from those of national culture (such as attitudes toward materialism) (Cable & Judge, 1994). As Yuen Chi-Ching, (1998:140) puts it, employee compensation preference in Singapore might be affected by the 'strong task orientation and materialistic values' of the country and concern for one's own interests.

Proposition on the Effect of National Culture on Subsidiary Compensation

From the case studies, it was mentioned earlier that no manager in the case study companies and affiliates stated specifically that national culture and religion were taken into account when compensation was designed. Nevertheless, recent research has emphasised that national culture should be taken into account as a significant variable when designing the compensation in an MNE subsidiary (Newman & Nollen, 1996). The role of national culture in compensation deign was therefore included as one of the initial research questions.

Townsend, Scott and Markham (1990) in their study of pay practices in five cultural clusters concluded that culture 'is a predominant factor that influences certain compensatory patterns' and that 'phenomena beyond strictly local and national customs may impact on how employees are paid' (p.674). Newman and Nollen (1996), having used Hofstede's dimensions of culture to assess the managerial practices of 176 work units of an MNE across 18 countries, suggested that MNEs 'would be well advised to take national culture as a given and adjust their practices accordingly' (p.774). Newman and Nollen's work was important in that it linked the 'cultural fit' to subsidiary performance. Schuler and Rogovsky (1998) again using Hofstede's (1980) work in a study of compensation in 24 nations, concluded that 'national culture provides an important explanation' for the differences in compensation patterns internationally (p.172). The apparent benefits for incorporating national cultural determinants into compensation design, according to Townsend, Scott and Markham (1990), were that if cultural factors were incorporated in pay design, then employee expectations would be met, that employee satisfaction would be higher, and that MNEs could 'optimize their compensation budget' (p.667). Going further, Schuler and Rogovsky (1998) saw linking compensation practice to the 'cultural expectations of host country employees' as the basis for 'competitive advantage' or, at least, a way 'to avoid possible failure' (p.161).

We noted earlier in the thesis the problems of defining culture, the distinction between culture and national culture, the scarcity of measurable cultural dimensions, and the dangers of extrapolating from culture to 'appropriate' compensation systems for specific dimensions. Research is limited on how much discretion management has to move away from these recommended HRM practices before business performance declines, presuming that the recommendations are 'right' in any case. There is also the problem of (1) isolating the variable of national culture from the influence of the internal and other national external variables in compensation design for the MNE affiliate, (2) deciding whether national culture is reflected in decisions of bodies like the Singapore NWC and AIRC, and (3) judging whether business exigencies might override cultural factors in decisions. In addition, there is the impact of national culture on the value system of the employee. Are employees more attracted to MNEs that offer compensation systems in line with their values determined by national culture, and what effect does each type of compensation system have on the behaviour of different categories of employees in different cultures?

Figure 13.1 portrays some possible linkages between national culture and other elements of the external environment. It suggests that national culture may influence host government philosophy and policy in a number of areas and employee compensation preferences. One could argue that the Power Distance and Masculinity dimensions (Hofstede, 1980) might affect the type of minimum conditions, taxation policy, incomes policy, social security, and legislation relating to equal pay. In industrial relations, Yuen Chi-Ching (1998) refers to empirical research showing Singaporeans' preference for avoiding and compromising rather than collaborating and competing; the 'oriental paternalism' of the Government (p.130); respect for authority (p.137); and the concern for 'face' (p.139). In contrast, Olekalns (1998) views Australian individualism as emphasising achievement and individual contribution, while at the same time, 'a horizontal orientation emphasizes fairness and an equal distribution of resources' (p.284). This might account for the longevity of the ALP/ACTU Accord, and retirement and public health provisions in Australia.

Hofstede's (1980) four dimensions to represent national culture and Hodgetts and Luthans (1993b) recommendations for compensation design for each dimension were used in the analysis of the data from the case companies. It was acknowledged earlier that the Hodgetts and Luthans (1993b) guidelines are somewhat general in some cases, and that they were designed to apply to host country managers only. However, they have been used to apply to all occupations, a practice followed by Gomez-Mejia and Welbourne (1991). The Tables in Appendices 13.1 and 13.2 test how the compensation design of all case subsidiaries and companies in Australia and Singapore respectively conform with the Hodgetts and Luthans (1993b) recommendations for Hofstede's dimensions. As mentioned in Chapter 4, to add further specificity to some dimensions, there was some reliance on Gomez-Mejia and Welbourne's (1991) and

Schuler and Rogovsky's (1998) extrapolation of Hofstede's (1980) dimensions to compensation. As wage and salary dollar amounts were not sought, data on the differences in salary between the lowest and the top of the organisation were unknown except in the cases of Oilco Australia where the directors' salaries were published in the annual report, and operators' and clerical employees' compensation was available from published agreements of the AIRC. However, where collective agreements were published in each country, the range between the lowest and highest paid in that agreement is taken as an indication of Power Distance. As noted in Chapter 4, 'decentralised pay policies' was interpreted as the degree of centralisation of the compensation system in relation to the structures of the MNE affiliates, and not the whole corporate MNEs, of which three were Australian and two were non-Australian.

For the Australian MNE subsidiaries and companies, the Table in Appendix 13.1 shows that in no occupation of any subsidiary was there a full conformity with the pay recommendations suggested for the Australian cultural dimensions. Of the compensation systems shown, the best result was the five occupations that met eight recommendations out of a possible thirteen. Looking at the Table in Appendix 13.1 as a whole, the only pay recommendation that obtained full support by all Australian subsidiaries and companies for all occupations shown, was the absence of family-friendly employee benefits over and above those that are mandatory. This would be expected with a moderately high Masculinity culture. More frequent was a complete, or almost complete, lack of support across the board for recommendations such as low benefit gaps, gain-sharing, and gender pay differences. Conformity with the Hodgetts and Luthans (1993b) recommendations was more common *within* occupational groups. For example, nearly all the managerial compensation systems in the Australian affiliates and companies used profit-sharing, individual performance-based pay, and rewards for short-term achievement. In addition, all firms ensured that the managerial salaries paid were competitive with market levels. This led generally to a higher degree of support for the pay recommendations than for the operating/industrial and clerical systems. The compliance with the compensation recommendations by the operating/industrial and clerical employee schemes was more mixed across the MNEs. Individual performance-based compensation is not wide-spread in Australia for these occupations, and in the past, general pay rates have been partly dependent on AIRC decisions rather than being totally determined by external market levels.

The fact that no Australian MNE affiliate or company followed all the Hodgetts and Luthans (1993b) recommendations completely might have been due to the small number of cases, the quality of Hofstsede's (1980) dimensions and findings, the inappropriateness of the compensation guidelines, the MNEs concerned judging factors other than national culture to be more important, or any combination of these four reasons. Bloom and Milkovich (1999) criticise models such as that of Hodgetts and Luthans (1993b) for their prescriptive nature and for predicting that national cultural factors will be more significant than organisational level factors as dominant determinants of compensation design (p.290).

In interpreting the Table in Appendix 13.1, it is noteworthy that all the operator/industrial employees' wage systems were based on, or underpinned, by industrial awards. Gain-sharing is not practised widely in Australia, and, according to Morehead et al. (1997), profit-sharing was only practised by 15 per cent of 719 workplaces surveyed in 1995 with more than 20 employees which run performance-related pay systems. In the Australian affiliate and company cases, only managers had access to these schemes. Awards for industrial staff in Oilco, Foodco and High Tech Australia were skilled-based rather than performance-based as a result of the AIRC recommendations, thus going against the Hodgetts and Luthans recommendations. Furthermore, Schuler and Rogovsky's (1998) data supported a proposition that skill-based compensation would be more prevalent in countries that had higher levels of Uncertainty Avoidance. Australia only has a moderately weak Uncertainty Avoidance score (Hofstsede, 1980). Nevertheless, management in all Australian subsidiaries and companies was rewarded on performance (possibly because there are a key strategic group), which is appropriate for a high Individualism and moderately weak High Uncertainty Avoidance national culture.

This highlights one apparent contradiction in the Hodgetts and Luthans (1993b) and Gomez-Mejia and Welbourne (1991) recommendations for appropriate pay systems for particular national cultures. For a high Individualism national culture, performance-based pay is recommended. If the culture has a strong Uncertainty

Avoidance dimension, fixed rather than variable pay is judged more important. What then is the role of variable and fixed pay if a country has both high Individualism and strong Uncertainty Avoidance such as Belgium and France? Schuler and Rogovsky's (1998) data did not support a proposition that pay-for-performance will be less prevalent in countries with higher levels of Uncertainty Avoidance. Thus they found pay-for-performance is present in countries with high Uncertainty Avoidance. In the Australian cases, the Australian MNE managers were all subject to pay-for-performance, Australia having a moderately weak Uncertainty Avoidance, while the data on the Australian affiliates' and companies' industrial and clerical staff compensation was less clear cut. One could argue that managerial pay in the Australian affiliates conformed more closely to the Hodgetts and Luthans (1993b) recommendations in general because the intervention by the industrial relations institutions such as the AIRC, unions, and the award process was less. While an MNE's subsidiary management may wish to design all compensation to suit the local national culture, it may be constrained in doing so by the local institutional infrastructure. The ownership of the Australian subsidiaries (Australian and European) did not appear to affect the lack of complete conformity with the pay recommendations. Locally owned Australian MNEs were not more closely aligned with the Hodgetts and Luthans (1993b) recommendations for their national culture.

Comparing the results for the Singaporean MNE subsidiaries in the Table in Appendix 13.2 across all MNEs, there was an emphasis on performance and sharing of risks associated with the success of the business. This was built in through the payment of the Annual Wage Supplement and other bonuses, and conforms with the Hodgetts and Luthans (1993b) recommendations for weak Uncertainty Avoidance. The other feature in this category of paying competitive salaries was supported by all MNEs, but with a tight labour market in Singapore, the labour market factors in addition to (or instead of) cultural ones may be the reason for conforming here. The collective agreements and structures for the operators/industrial staff in Singapore were extremely hierarchical, with large salary ranges for grades. For the smaller numbers of clerical and managerial employees in the affiliates, individual negotiation was the main basis of compensation, so the hierarchies were not so clear. However, differences in benefits were tied to rank, in line with the Hodgetts and Luthans (1993b) recommendations. Compared with Australian practices, the gaps between lowest and highest paid grades in the collective agreements and structures for which salaries were available were extremely wide (appropriate for a high Power Distance national culture). Wide use of bonuses based on affiliate performance, group compensation plans, pay rises based on length of service for operating and some clerical staff, and some benefits geared to family need, all supported the guidelines. The seniority-based systems in the Singaporean case studies conflict with Schuler and Rogovsky's (1998) findings which support a proposition that seniority-based compensation is more likely to be found in countries with higher levels of Uncertainty Avoidance.

Pulling the strands together, by comparing the data for the Australian and Singaporean subsidiaries and companies in the Tables in Appendices 13.1 and 13.2, in general, the Singaporean units conformed more with the Hodgetts and Luthans (1993b) compensation guidelines. The non-Australian MNEs' Singaporean affiliates were more aligned to the recommendations than were the Australian MNEs' units. As the results were uneven across all units, an argument could be put that the relationship between culture and compensation varies according to the occupation in a subsidiary. In fact, Schuler and Rogovsky's (1998) findings show that there were occupational differences in their alignment to national culture in the areas of individual bonuses, employee benefits and employee share ownership plans. An alternative view is that national culture may not be the correct level of analysis, and that the culture of subgroups may prove more fruitful as an explanatory factor in international compensation design (Bloom & Milkovich, 1999).

The collective agreements for industrial employees in Oilco Singapore and Foodco Singapore, and the collective agreement for the clerical staff in Oilco Singapore, were the pay systems nearest to fulfilling all Hodgetts and Luthans (1993b) recommendations. Apart from these, the degree of support for the recommendations was different for each occupation in the same affiliate. This might be due to the extent to which compensation is designed to develop the appropriate behaviour required for business strategy, the replication of head office pay system (such as Hay job evaluation), the strategic importance of an occupation, or the influence of external regulation and principles such as the Singaporean NWC and the AIRC. Alternatively, there may be internal factors and other economic, social, legal, labour market and historical macro variables affecting the nexus between pay and national culture (Schuler & Rogovsky, 1998; Gomez-Mejia & Welbourne, 1991). Such a conclusion might be drawn from the weak support for a hypothesis in the Rosenzweig & Nohria (1994) study of US subsidiaries which stated that the resemblance to local HRM practices was negatively related to the Culture Distance between the parent country and the host country (p.237), and from the comparison of managerial pay systems in London and Hong Kong banks by White, Luk, Druker and Chiu (1998). While recognising that the findings from a small number of cases cannot be generalised, two further propositions are therefore suggested for further analysis:

Proposition 8
While national culture may have an influence on management's choice of compensation design for an occupation in an MNE subsidiary, it will not be the main determining factor.

Proposition 9
The amount of influence that national culture has on management's choice of compensation design for an occupation in an MNE subsidiary will depend on the strategic importance of that occupational group in attaining business goals and IHRM strategies either of the affiliate or the whole MNE.

A Comment on Employee Benefits and National Culture

In passing, the employee benefits of the Australian and Singaporean subsidiaries can also be compared with the Schuler and Rogovsky (1998) findings. The authors concluded that their evidence supported propositions that the higher the level of Masculinity in a national culture, the less prevalent would be flexible benefit plans, workplace child-care, career break schemes, and maternity leave programs (pp.13–14). Thus one would expect additional family-orientated benefits in the Singaporean affiliates studied, as Singapore has a moderately low Masculinity (Hofstede, 1980). Apart from Oilco Singapore and Foodco Singapore in the case companies, the level of extra family benefits was low. No data were collected on career break schemes by this researcher, but it was not a benefit mentioned in discussions with unions or companies. However, maternity leave is mandatory in Singapore (eight weeks with full pay under the Employment Act), although the provision of child-care and flexible benefit plans are not. The case data cannot be generalised, but a wider data base is available. Contrary to the Schuler and Rogovsky (1998) findings, a NPB/SILS (1993) survey of 300 Singaporean companies in the private sector in 1992 (already referred to earlier) found that 70 per cent of companies did not intend to implement flexible benefit programmes (p.4), and only 2 per cent either provided or subsidised child-care facilities (p. 23). The 2 per cent was the same percentage for locally owned and MNEs operating in Singapore. There were no data on the incidence of career break schemes. The incidence of some benefits in Singapore may therefore affected by factors other than national culture such as the size of firm, ownership, the stage of economic development in the country, or government policy.

By comparison, the benefits in the Australian case studies *did* appear to support the findings of Schuler and Rogovsky (1998) in relation to Australia's moderately high Masculinity dimension (Hofstede, 1980). There were few additional family benefits apart from those required by legislation or AIRC test cases. Again, one cannot generalise from the cases, but a study of 1,596 Australian federal enterprise agreements in March 1998 (ACIRTT, 1998:32) showed that only 0.2 enterprises had child-care facilities at the workplace, 0.1 per cent had career break schemes, and 3.2 per cent had paid parental leave. There were no data on flexible benefit plans in the study. The 1995 AWIRS study (Morehead et al., 1997) of 1,967 workplaces with more than 20 employees gave a more favourable impression of work and family initiatives. Family or carer's leave was available in 29 per cent of workplaces, paid maternity leave in 34 per cent, and paid paternity leave in 18 percent of workplaces (pp. 114–16). Assistance with child-care either through financial assistance or provision of workplace-based facilities was offered in only 7 per cent of workplaces (p.116). While Australia has a national standard of twelve months unpaid maternity leave, it was one of only six countries out of 152 surveyed by the ILO that did not require women to be paid during maternity leave (Age, 10 March, 1998:17). The most generously paid maternity leave was in the public sector with a norm of twelve weeks. In terms of the Masculinity dimension, therefore, one Singapore survey did not support the Schuler and Rogovsky (1998) findings whereas one Australian study did. Moreover, Schuler and Rogovsky found no links between family-orientated employee benefits and the levels of Uncertainty Avoidance in the 24 countries they studied, so it seems that non-cultural factors may be significant in employee benefit determination.

Effects of the Internal Environment on Subsidiary Compensation Design

We have already argued that the design of MNE affiliate compensation is determined by a combination of internal and external environmental factors. From the case studies, it was assumed that the compensation systems would be arranged to facilitate the competitive strategy of the subsidiary within environmental constraints. In the case MNEs, apart from the competitive strategy, the organisation of the affiliate, the nature of the work, its size and local HR policies and practices appeared to be the most significant internal influences. Again, it could be argued that some of these could be affected by external factors. An example is the pressure of increased competition leading to the restructuring of organisations (Morehead et al., 1997).

The desirability of linking of HRM policies and practices to business strategy is a well-trodden path in HRM (see, for example, Tyson, 1997). From the case studies, some links could arguably be identified. Foodco Australia attempted to increase employee flexibility and manufacturing efficiency, and apply technology better. It introduced its own site agreements and a multi-skilled approach to operator compensation. Flexibility of labour was also at the heart of the collective agreement for Foodco Singapore. In Buildo Australia, low cost production and distribution, and good customer service were competitive strategies. The affiliate's new Performance Improvement Payment Scheme had Variable Conversion Cost/Tonne produced and Customer Service as its two Key Performance Indicators that triggered incentive pay. Metalco Singapore's competitive advantage was in improved quality and reduced costs. ISO 9000 quality standards were introduced, and industrial staff were paid at 'market rates' with the opportunity of a share of the profits according to sales.

The need to cut costs in in Oilco Australia and High Tech Australia led to down-sizing leading to reduced hierarchies. The flattening of the organisations did not lead to a formal salary broad-banding system, but was accompanied by the introduction of team structures on the shop-floor. Skill-based pay is often advocated for team rewards (Welbourne & Gomez-Mejia, 1991). However, no formal shopfloor teams were present in Foodco Singapore and Buildo Singapore even though the operators were paid for skill.

The MNE subsidiary's organisation design through its specialist functions, departments and teams influences the work to be done, and the skills needed to perform it (Milkovich & Newman, 1999). In Chapter 12, we noted the numbers of different pay systems in each subsidiary that were partly a function of the occupational structure of the affiliate. This was particularly apparent in Oilco Australia and High Tech Australia. However, Oilco Australia and Metalco Australia interviewees talked of the ultimate objective of putting all employees on to 'staff'/individual contract conditions. Skill-based pay existed in a number of affiliates as well in order to encourage further skill formation. The size of the unit was also arguably important as more formal compensation systems were found in larger units. However, where there were large numbers of a particular occupational group, the compensation was more formalised. Thus Oilco Australia, Foodco Australia, Buildo Australia and Metalco Australia, and Oilco Singapore had compensation structures (rather than individually set pay ranges) for most levels of staff. In the remaining subsidiaries, there was a greater use of individual contracts outside of a formal structure.

Finally, Gomez-Mejia and Balkin (1992) suggested that strategic pay choices are seldom made in isolation and are more common in clusters or patterns (p.60). Indeed, recent research supports strong links between organisational effectiveness and HRM systems or 'bundles' (Bloom & Milkovich, 1999:285). It might be posited that pay choices are also be clustered with a set range of HR practices. For example, the desire of subsidiaries to link performance to pay for all managers in all units, to encourage skill-related career paths for operators (Oilco Australia and Foodco Singapore), to facilitate the mobility of staff and possibly career development through international transfers in four of the Singaporean affiliates, shows that local HR policies and practices should not be omitted in any explanatory framework of subsidiary compensation. Indicating the strength of each endogenous variable in determining discretion in compensation design is obviously problematical. A research need is to elicit whether MNE subsidiary managers match compensation systems with the internal environment such as affiliate goals and organisational cultures first before considering the implications of the external environment on 'strategic alignment' (Bloom & Milkovich, 1999:293).

A Theory of Compensation in MNEs

In relation to the contribution of this study to explaining compensation in MNEs, the findings have suggested a number of factors that should be considered. While some elements of the external environment were separated for analysis, the inter-relation of each element was very evident particularly regarding the actions and philosophy of government, employment legislation, industrial relations system and unions' role. Nevertheless, the MNEs used a variety of methods to manipulate the environment particularly through use of industrial tribunals.

The analysis of the case companies over time demonstrated the dynamism of the external environment which MNEs have to adjust to, such as the introduction of FBT. The degree of dynamism for each external environmental element varies, however, and subsidiaries reviewed pay rates regularly against labour market changes. In contrast, national cultural changes are much more gradual and did not appear to rank highly in the decision-making processes of managers in either Australia or Singapore.

The complexity of an external environment facing an MNE differs from country to country. The range of employment law affecting compensation varies and has different degrees of application according to the level of the employee and element of the compensation system. This was particularly evident in Australia and Singapore in the authority of unions to seek collective bargaining rights, and in the compulsory provision of employee benefits. The influence of the external environment therefore appeared to differ according to the level of staff and the feature of the compensation systems under review. At one end, industrial employees in some MNEs were unionised and their structures subject to industrial tribunal approval; at the other, expatriates' allowances were adjusted to reflect the different cost of living in a nation without third party interference. Our two country examples demonstrated that the MNE will face significant differences in external environmental constraints in each nation in which it is located.

How should the MNE handle these national differences in external environment in designing its compensation systems? The study findings indicated that each MNE decided to vary its compensation systems according to the subsidiary. Apart from adaptation to a country, this may because:

> If the basic premise of a strategic perspective is to align the [subsidiary]compensation system to the [affiliate] business strategy, then different [subsidiary] business strategies will translate into different [affiliate] compensation approaches (adapted from Milkovich &Newman, 1999:24)

There were some similarities in the *overall* Algorithmic or Experiential patterns between pairs of affiliates in the same MNE for particular occupations, but there was no pair of Australian and Singaporean subsidiaries where the set of up to 19 individual Algorithmic and Experiential elements was completely identical. The MNE case companies therefore did not have overall common compensation systems across the world for all levels of staff. One could ask whether common world-wide systems might be possible and whether 'new pay' or 'high commitment' models would work effectively in any environment (Milkovich & Newman, 1999).

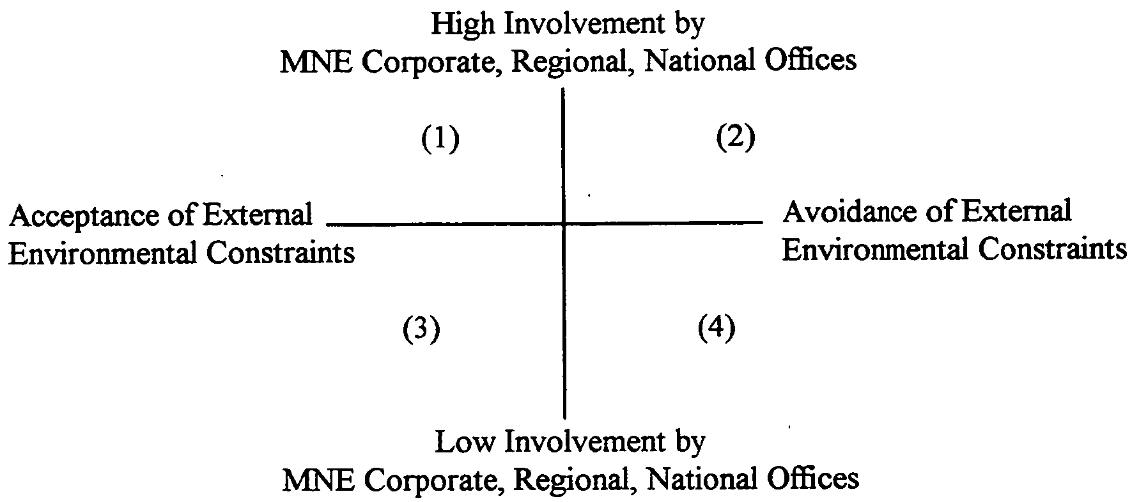
In relation to cross-national compensation, there has been recent debate about the globalisation of labour markets, and the design of 'borderless pay systems' and pay convergence (Milkovich & Newman, 1999:523). Cairncross (1999a: S17) writes of Unilever's expectation of regional pay convergence and a 'pan-European' rate in time. Global pay may be possible for software programmers who live in one country and work in another (Cairncross, 1999b). There is consultants' survey evidence on MNEs designing global pay structures, incentives and stock options for executives which usurp MNE subsidiary managers' decisions. The data also suggests that professional compensation systems are being designed at global, regional and local levels, whereas administrative, clerical and blue collar compensation was still a local decision (Gross & Wingerup, 1999).

While pay differences for executives across countries may converge (particularly at senior executive levels), global pay-for-performance may encounter national cultural differences as well as various taxation and benefit systems (Cairncross, 1999a). Apart from national cultural differences, it is obvious that national economies, laws, governments, and unions vary and so, at the minimum, pay levels would have to be adjusted to the rates of the local labour markets to attract local employees. Any desire by the MNE to encourage extra performance, skill or flexibility through pay to achieve the business goals of a particular subsidiary (as opposed to the whole MNE) would be difficult through a global system. Lack of uniformity in the case study affiliate compensation systems was due to the different ranges of exogenous and endogenous factors facing those affiliates.

The MNEs studied handled the constraints of the external environment in different ways. Some took a passive approach for some years and maintained existing collective agreements for industrial staff while adjusting the levels of pay on a regular basis (e.g.Oilco Singapore) whereas others tried to overcome existing legislation and industrial awards to place industrial employees on to a completely different structure (e.g. Metalco Australia). The MNE may thus accept or attempt to overcome the constraints of the external environment. The MNE may be more prepared to try to avoid the external constraints of the environment in its home country rather than in a host country where it may be more unsure of the outcome for non-compliance with compensation legislation and local custom and practice. The findings suggested that the MNEs had considerable discretion in the compensation systems adopted particularly at higher levels of the unit, but that the MNE corporate, regional or national head offices could influence the final design and/or rates of pay—particularly at senior levels. A MNE head office may become involved in the process of compensation determination (e.g. through an international policy on union recognition) or in the system itself (e.g. Oilco's Hay structure). If a head office becomes involved, the degree of influence on subsidiary decision making may vary according to the particular element of compensation. The two dimensions of *acceptance–avoidance* of external environmental constraints and *high–low involvement* by the head office are shown as continua in Figure 13.2.

While the process of compensation determination could be applied to Figure 13.2, for brevity, concentration will be on the system design only. The decision on the nature of each element of the compensation systems of the case study subsidiaries can be allocated to one of the quadrants in Figure 13.2, but a few examples for illustration will suffice. In Quadrant 1, near to the intersection of the two axes, can be located the decision about managerial compensation for host country managers in Foodco Singapore. The terms for the managers were negotiated individually, benchmarked by surveys against local rates, but with the Singaporean National Wages Council recommendations noted. Salary increases were based on performance using the

Figure 13.2
MNE Managerial Choices for Each Element of the Compensation System for Each Occupation in a MNE Subsidiary



Australian national office appraisal system. The package included the customary Singaporean 13th month AWS as well as other merit pay and bonuses.

Into the middle of Quadrant 2 can be placed the decision by the corporate MNE Oilco about the Hay evaluated compensation structure for middle and senior managerial staff in Oilco Singapore and Oilco Australia. The MNE Oilco European head office required the affiliates to install the Hay structure to facilitate inter-subsidiary transfers, and the structure was subject to no legislation or union constraints. The managerial employee benefits of the two Oilco subsidiaries, on the other hand, were less influenced by the corporate MNE Oilco European head office, but more subject to local influences such as coverage for health insurance. A position in Quadrant 3 is appropriate to reflect the greater influence of the host nation environment and the smaller involvement of the corporate head office in determining managerial benefits. By comparison, the decision about the compensation systems for the operators in Foodco Australia could be placed in the middle of Quadrant 4. There was no involvement by the corporate MNE European head office, but the national Australian office set the budget guidelines for the negotiations for manufacturing site collective agreements that were signed by union officials as ‘letters of agreement’. These agreements set up a compensation structure for operators that only partly conformed with the award for the industry in which it was based, and were not sent to the AIRC for ratification.

The model in Figure 13.2 can partly reflect the amount of discretion that an affiliate has in decision-making on compensation systems. One key question is the basis on which the corporate, national and regional offices decide to intervene in affiliate compensation systems. Quadrants 1 and 2 denote a head office ethnocentric orientation, and 3 and 4 a polycentric approach. The degree of head office intervention may be to do with the cost of expatriates and senior staff, the need to maintain some internal equity for transfers across the MNE, and the importance of the affiliate. One could argue that that head office orientation may vary according to the head office HRM function, type of subsidiary staff and each element of affiliate compensation. Decisions about the acceptance and avoidance of external environmental constraints may be connected with the need to devise appropriate compensation systems to achieve business unit and corporate goals, and the HRM competence of the subsidiary and head offices. The model can certainly cope with the need to analyse the decision about each element of the compensation system for each level of employee, a necessary condition for any theory of MNE compensation.

Implications of the Study for SIHRM Theory

With the difference between International HRM (IHRM) and Strategic IHRM being the link between IHRM and the strategy of the MNE, the current theoretical underpinning of SIHRM has been well summarised by Taylor, Beechler and Napier (1996). Past writers have linked the SIHRM systems of an MNE to its stage of internationalisation (Milliman, Von Glinow & Nathan, 1991) or its international strategy through a contingency approach, not necessarily seeking the best IHRM practices, but more the best 'fit' between external environment, overall strategy and HRM implemented policy (Taylor, Beechler & Napier, 1996: 961). This implies a need for 'flexibility' as the MNE becomes more internationalised. The Schuler, Dowling and De Cieri (1993) integrative framework of SIHRM progresses these SIHRM theories further by placing the emphasis on interunit linkages (integration), the adaptation of the affiliate to its local external environment (differentiation), and the exogenous and endogenous factors which impact on the MNE's HRM 'in its effort to be locally responsive and adaptable and globally coordinated and controlled' (p.725).

Taylor, Beechler and Napier (1996) argue that the key contribution of previous IHRM models has been the identification of 'critical variables' for SIHRM in addition to strategy, such as the industry of the MNE, its international experience, its organisational structure, the MNE head office orientation, the variability of the external environments facing the MNE (Milliman, Von Glinow & Nathan, 1991), and the performance implications of the balance between central integration and local responsiveness. Taylor, Beechler and Napier's (1996) model attempts to take SIHRM theory further by using resource-based and resource-dependency as well as contingency approaches. In addition, they stress four 'critical considerations' not previously developed in SIHRM models: (1) the importance of the home HRM system for building the IHRM system, (2) using different SIHRM for various types of affiliates, (3) differentiating employees in SIHRM, and (4) 'being more explicit about how SIHRM systems vary over time' (pp.962–3).

These additional considerations suggested by Taylor, Beechler and Napier (1996) can be applied to the case studies in this thesis. In the Australian owned MNEs, Buildo had access to large body of HRM expertise and an international division, whereas High Tech had no HRM specialist until relatively recently. Neither MNE head office became involved in the non-managerial pay systems in Singapore, which, according to Taylor, Beechler and Napier's (1996) propositions, may have been because they were not global organisations (although Buildo could arguably justify this nomenclature), or because top management perceived the MNE's HRM competence as 'context specific' and not 'useful beyond national borders' (p.969). By contrast, the European owned Oilco had highly developed and resourced HR systems and some similarity of compensation practices (such as Hay job evaluation systems) across units. According to the Taylor, Beechler and Napier's (1996) propositions, this 'exportive' or 'integrative' SIHRM orientation might have been because Oilco was following a global strategy, and because Oilco's top management perceived the MNE's competence in HRM to be 'context generalizable'.

The Taylor, Beechler and Napier (1996) model also posits that the parent MNE SIHRM orientation may vary for each subsidiary which, in turn, affects the degree to which there is similarity between the HRM of the parent MNE and the affiliates. This is because the affiliates' dependence on the parent may vary. Second, there are differences in the strategic roles of the subsidiaries and the way they are established, and, third, there are differences in legal and national cultural environments. Under the resource-dependence approach, it could be argued that Foodco Australia was dependent on the skills and technology in Foodco Singapore to produce the raw confectionery sent to Australia. In turn, Foodco Singapore would be dependent on the technical know-how, initial capital and revenue of the Australian parent. As an 'integrated player' (Taylor, Beechler & Napier, 1996:975), one might therefore have expected a high degree of similarity between the HRM systems of Foodco Australia and Foodco Singapore. This was not the case, and under Taylor, Beechler and Napier's model, may have been due to the purchase of an existing manufacturing company by Foodco Australia, rather than establishing a greenfield operation (p.976).

We noted in all the cases that there were differences in the way compensation was designed for different occupations in the subsidiaries. Without further analysis, it would be difficult to assess how critical each group of employees was to the MNEs' performance, but the compensation packages for expatriates in Oilco had much MNE head office involvement and were based on standard principles. Only in Oilco Australia and Oilco Singapore was there a similarity in salary structure between both subsidiaries and the MNE corporate head office. Under the Taylor, Beechler and Napier (1996) model, this could be because employees paid via these structures were 'critical' to the MNE's performance (p.978). However, the employee groups which are critical to performance may change over time and thus attract more interest by the parent company.

While this thesis did not attempt to assess the 'fit' between the compensation design in the subsidiaries studied and the business strategies, further theoretical development of strategic IHRM along contingency lines could include the extra variables of the Taylor, Beechler and Napier (1996) model together with the other 'critical' variables already discussed, and the endogenous and exogenous factors of the Schuler, Dowling and De Cieri, (1993) framework. It is acknowledged that there are definitional and conceptual measurement problems in the concept of 'fit' (Gerhart & Milkovich, 1992: 532), and that contingency models may also suffer from 'ambiguous levels of anlysis' and 'temporal vagaries' (Bloom & Milkovich, 1999:287). Moreover, placed in the context of the parent MNE head office and regional/national offices, the number of these variables for any overriding SIHRM contingency framework is considerable.

While contingency theory 'still remains a dominant paradigm' in management (Gomez-Mejia & Balkin, 1992:116), other theoretical approaches can be suggested for useful development in relation to the thesis topic. This is especially so given that compensation design may be due to 'custom, imitation from other firms, administrative convenience, and ad hoc programs' (Gomez-Mejia & Balkin, 1992: 57). These approaches (discussed in detail by Wright & McMahan, 1992) include the resource-based view of the MNE and 'the relationships between strategy, HR practices, and the HR capital pool' (p.299). This is particularly relevant to the attempt by Australian companies to develop employee competencies through skill-based pay to support business strategies for competitive advantage. However, competitive advantage through the pay system depends on whether competitors can imitate the 'synergies' of the compensation with other organisational factors such as company culture and business strategy (Gerhart, Trevor & Graham, 1996:147). Human capital theory (Jackson & Schuler, 1995) is also applicable here as the costs of building additional infrastructure to assess shop-floor competencies and design career structures arguably constitute 'human capital investments' (p.241). The behavioural approach of linking required role behaviours to support different business strategies (Jackson, Schuler & Rivero, 1989) might be another rationale for different compensation systems in subsidiaries, but there is little research as yet to support strong links of particular role behaviours with particular competitive strategies (Wright & McMahan, 1992:305). In such a line of research, it would be necessary to separate global strategy from affiliate strategy and their link to role behaviours. Furthermore, from a cross-cultural viewpoint, there are challenges in assessing whether similar HRM practices produce similar role behaviours internationally. For example, two types of incentive schemes were used on the shop-floor in Foodco Singapore and Buildo Singapore, while Buildo Australia used another type of incentive scheme.

This thesis has concentrated on compensation in MNE subsidiaries, but as previously suggested, it is obvious that compensation would have to be linked to other HRM practices to explain how MNEs link HR practice to strategies. The use of a cybernetic systems approach (Wright & McMahan, 1992) suggests that organisations might seek employee control through 'inputs' (selection and training), 'behaviours' (behaviour-based appraisal and reward systems), and 'outcomes' (outcome-based appraisal and reward systems) (p.307). We noted that the use of performance appraisal in conjunction with pay-for-performance was uneven across the affiliates, but more common at managerial level. The particular relevance to this thesis is the need for the cybernetic model to operate in a changing external context that has to be monitored by management. For a full systems model, Wright and McMahan (1992) note that feedback from the environment has to be interpreted and may then lead to adjustments in HR practice (p.308).

Roth and O'Donnell's (1996) major study of 100 MNE subsidiaries in five countries showed the potential of applying agency theory (Eisenhardt, 1988) to affiliate compensation. Liking the headquarters-foreign subsidiary structure to the principal–agency structure, the three agency problems for the head office-subsidiary relationship arose from the cultural distance between headquarters and subsidiary market, the strategic and operational role of the subsidiary, and the 'commitment and psychological alignment' at the individual level (p.682). Roth and O'Donnell's study included hypotheses about the links between (1) cultural distance, (2) role of the affiliate, and (3) senior management commitment to headquarters, and (1) the proportion of incentives in senior executive and other personnel compensation, and (2) market position of pay levels. They concluded that their findings provided 'moderate support' for the application of agency theory to MNE subsidiary compensation and suggested that future studies integrating agency theory and institutional theory could be worthwhile (p.698). In relation to this thesis, with only European, Australian and Singaporean cultures studied (and the similarity of the British cultural dimensions [Hofstede, 1980] to those of Australia) and the lack of compensation figures for senior management, it was not possible to compare the case study findings with those of Roth and O'Donnell.

According to Wright and McMahan (1992), other models of HRM could be termed 'non-strategic' (p.310). They include 'resource dependence/power models', already referred to in the Taylor, Beechler and Napier (1996) model. With regard to SIHRM practices at parent and subsidiary levels, one issue is the extent to which compensation design is the result of MNE political considerations as opposed to technical considerations (Wright & McMahan, 1992). The resource dependence approach can be used to show 'situations in which MNCs will exercise control over the SIHRM system of their affiliates' (Taylor, Beechler and Napier, 1996: 960). One final perspective (although currently not well developed) is institutionalism (Wright & McMahan, 1992: 313). Using this approach, some HRM practices can be imposed 'coercively' through legislation or an MNE head office ordering changes in an affiliate (p.314). In relation to the thesis, this was obvious in the observance of the mandatory minima of conditions both in Singapore and Australia.

An alternative way of viewing institutionalism is the modelling of compensation design on practice in other companies in order to appear 'legitimate' or 'up to date' (p.314). This has been seen as 'a lower-risk approach' than the resource-based model as a basis for choosing a compensation practice (Gerhart, Trevor & Graham, 1996:149). However, an MNE might follow both institutional and resource-based approaches with, for example, the 'best practice' institutional approach for some part of compensation design, and a resource-based approach for its core pay system (p.153). Thus, the similarity of non-managerial and middle management pay systems to the host country's systems in the MNE case studies could be explained by institutional theory in that the MNE affiliates wish to appear 'respectable' and present a small target for tribunals, unions, and governments. Compensation for senior managers and expatriates might be better explained by agency or resource-based approaches (Roth & O'Donnell, 1996).

HRM practices may continue to exist due to organisation inertia (as denoted in organisation structural inertia theory [Baum, 1996]), rather than being modified to support a competitive strategy. The collective agreement of Oilco Singapore is possibly an example of this inertia, as it has persisted for over thirty years in a similar form. By comparison, change in employment legislation led to changes in compensation design at lower levels through enterprise agreements in Oilco Australia, Buildo Australia, and High Tech Australia. Further research would be needed to determine to what extent the proliferation of enterprise agreements in Australia is due to imitation, a genuine desire to obtain a better link between compensation practice and business strategy, or the pressures of the 'institutionalized environments to become similar' (Jackson & Schuler, 1995).

According to Jackson and Schuler (1995), institutional theory and resource dependence theory appear to be 'particularly useful guides' for research on how the legal, social, and political external environments affect HRM practice (p.248). But going beyond the determinism of contingency factors for MNE compensation design, the 'strategic choice' model of Child (1972; 1997) could also provide some theoretical scope for further understanding of how much discretion MNE managers have in the choice of affiliate pay systems in the context of their internal and external environments. The British contextual position, for example, argues that organisations do at times deviate from their socio-cultural context (Whittington, 1990). More recently, however, De Cieri and Fenwick (1998: 5–6) have suggested that network theory should supplement institutional, resource dependence and resource-based theories to allow a 'multi-level analysis of the variables related to compensation in networked organization'. While each of the theoretical approaches offers a contribution towards the understanding of MNE affiliate compensation design, it is likely that more could be gained from multi-disciplinary and multiple theoretical approaches (Dowling, Welch & Schuler, 1999) and viewing the term 'Strategic International HRM' as more simply 'Strategic HRM of an MNE'.

Implications for IHRM Practice

The implications of the study's findings for IHRM practice and, in particular, compensation design in MNE subsidiaries, are *the greater knowledge needed by MNE managers about subsidiary external environments in each country of operation, and the recognition of the choices of compensation system available at affiliate level.* The background knowledge needed to analyse the external environmental factors in the affiliates studied in the thesis would be similar to that needed by expatriate MNE managers setting up IHRM systems for all staff in a new overseas unit. The key practical question concerns the basis on which the MNE management should design the compensation system. Starting from the lower levels of a subsidiary, non-expatriate staff would be selected from the local labour markets. Intimate knowledge of these markets would thus be essential, gained either from consultants, government officials or locally recruited host country managers. Compensation levels and mix and benefits would have to be adequate to attract good quality employees. The compensation mix and benefits may be affected by any relevant employment legislation, although the MNE may attempt to influence this through political or employers' pressure groups. The legislation may set minimum standards which have to be observed, and may vary according to the occupation.

The MNE subsidiary may have a choice as to which compensation design it installs, but this may depend on whether the MNE decides to (1) recognise unions for the grades of employees capable of being unionised, (2) take host country culture into account, (3) follow any guidelines from host country industrial institutions, and (4) transfer any pay designs from the parent. If the MNE subsidiary decides to recognise unions, then it may be forced to negotiate conditions which more closely reflect the local labour market practices. The power and status of host country institutions like unions and government may affect the discretion of the affiliate to adopt 'high standard' HRM practices (Kochan, Batt & Dyer, 1992:331). Transferring parent head office salary structures is likely to generate more than one compensation system in the subsidiary, but even with the head office structure, the level of pay would have to be attuned to the host country labour market.

Compensation for host country managers can be formulated with more freedom, as it is less likely that laws setting minimum standards and unions would have much impact. However, the final design would usually have to be agreed with the parent MNE head office, which may impose its own design, or, at least, its preferred mix, on the subsidiary in order to facilitate a standard structure or have more control over management performance according to the strategic role of the subsidiary. Each of the variables listed earlier in Figure 13.1 would have to be considered. If a head office compensation design is replicated in the subsidiary, the MNE would have to assess how much this should be adapted to fit local national culture and mandatory requirements. Host country environments may vary in their acceptance of new compensation practices introduced by an MNE subsidiary (Rosenzweig & Singh, 1991). However, without further empirical evidence, the linkage of national culture with compensation design is problematical (Gomez-Mejia & Welbourne, 1991). This study has also shown that MNE affiliates do not operate with one compensation system, but may function successfully with several systems. In short, the better the understanding of the host country external environment, the better the 'fit' of the affiliate's IHRM with its environment (Katz & Elsea, 1997; De Cieri & Dowling, 1997).

Limitations of the Research

As with all research projects, the findings of the research have to be assessed in relation to some limitations of the research methodology. In Chapter 4, a number of these were referred to, including the selection of comparative cases and the difficulty in finding pairs of similar case subsidiaries in Australia and Singapore that were prepared to provide access. Ideally, the pairs of affiliates would have had highly similar endogenous factors. While the technology and products were similar in Oilco and Buildo, the comparison in High Tech was of a company (including head office) in Australia, with a sales office in Singapore. The subsidiaries studied in the Metalco and Foodco MNEs were of markedly different sizes and technologies and their products were not identical.

In choosing a case methodology rather a survey methodology, the advantage of the potential to record and analyse changes in HRM practices over time in a company was apparent. However, one problem is that the company owners may change during the research period as was the situation with Metalco Singapore, and so this case analysis was for the position up to April 1993 rather than 31 August 1995 as for the other four MNEs. Another limitation was the range of personnel interviewed. The size of an international study is always constrained by budget limitations. It would have been useful to have spent some time at the MNE corporate head offices of Oilco and Foodco in Europe to compare their perceptions of headquarters' control, but the financial resources available did not permit this. To add another comparative dimension to the project, a study of the compensation of a major Singaporean owned firm was undertaken by the author at the same time as the MNE cases, and while a further comparison with the MNE affiliates in Singapore would have been valuable, it was not included because of the scale of the research.

The Summary Profile of Experiential and Algorithmic Compensation Patterns of Gomez-Mejia and Balkin (1992) was used to provide a standard basis for comparison of the compensation systems in the case subsidiaries, but the multiple bases for pay in some affiliates were sometimes difficult to fit into the single criteria of the patterns. Allocations to the Algorithmic or Experiential categories have been made in a consistent way, even if they not a perfect fit. A similar classification problem arose in relation to national culture and compensation. We noted earlier some of the challenges in linking compensation features to the Hofstede (1980) cultural dimensions. Although Hofstede's work has the advantage of rank orders and indices, there is the problem of drawing a line between a strong and weak finding on the dimensions. Australia and Singapore were judged either *moderately* high or low on some of the dimensions, but the pay recommendations of Hodgetts and Luthans (1993b) and Gomez-Mejia and Welbourne (1991) did not allow for this. The dimensions were either strong or weak, or high or low and this research classified the dimensions in the same way. It was also noted that the Hodgetts and Luthans (1993b) guidelines for compensation design were aimed at host country managers only, but have been taken to apply to all subsidiary employees in this study. These compensation and national cultural issues suggest a need for more robust techniques for measuring IHRM concepts and constructs in future research (De Cieri & Dowling, 1999).

Other limitations of the project were the lack of pay data from the MNEs where these were not publicly available. This information was not sought in order to increase the possibility of access to MNEs, but would have been useful in analysing pay ranges in subsidiaries. It was not possible to consider the effect on compensation of sub-cultures in Australia and Singapore (Bloom & Milkovich, 1999) because there is little empirical research on sub-cultures within both countries; the work of Hofstede (1980) and Trompenaars (1994) is targeted to national cultural levels only. Another limitation of the study was its restriction to two countries only. This decision was made on the grounds on the appropriate scale needed for a thesis of this nature after work on the external environment and compensation systems of a third country had been commenced.

Against these limitations, the research has attempted to avoid some of the major pitfalls of comparative management studies as listed by Peterson (1993), in that it has developed an explanatory framework based on the literature and the case findings, has examined national culture as one of several other external variables that may cause differences in compensation design, has not assumed that the external environmental elements have equal value in both Singapore and Australia, has studied more than one category of employee, and has used a variety of affiliate sizes. The writer is also mindful that it is not prudent to attempt to generalise findings of case study research.

Suggestions for Further Research

With international compensation research at an early stage of development, there is much potential for further research on MNE compensation policy and practice as the conclusion to Chapter 3 indicated. This section thus highlights a possible sample only.

Following the lead of Jackson and Schuler (1995), the external context of IHRM is in need of further research. In relation to this thesis, more work could usefully be done on the effect of the industrial relations institutions faced by MNEs that recognise unions. For example, one could question the role of national culture in the setting up and decisions of bodies such the Australian Industrial Relations Commission (AIRC) and the Singaporean National Wages Council (NWC)(Tayeb, 1995). Decisions and recommendations of the AIRC and NWC could be analysed from a cultural perspective, such as their effect on wage differentials and income inequality, as might the presence of 'strong national or sectoral bargaining arrangements' (Locke, Kochan & Piore, 1995:151). We know little about the extent to which MNEs follow those recommendations for different levels of employee compared with local firms, especially if by doing so, the MNE is not able to design its preferred compensation systems in line with subsidiary and global business goals. In this regard, what processes, if any, do MNEs use to try to influence the host country governments and industrial tribunals over conditions of work?

MNEs may be faced with demands for union recognition at the affiliate level. The changing density of unionism across the world may have an effect on pay strategies.

It would be useful to compare the features of the collective agreements of one MNE's subsidiaries in different countries to determine how much similarity there is between affiliates. We have noted that employment legislation can have a significant effect on setting minima for the compensation system, although not necessarily on the compensation structure. If a suitable measure of national culture could be developed, one could attempt to establish a link between national culture and employment legislation that sets the context for compensation, especially benefits.

On a more basic level, there is a need for data on compensation systems generally across the world so that studies like that of Schuler and Rogovsky's (1998), which show a link of national cultures to pay practices, could be extended to other countries. On a practical level, we do not know to what extent the MNE should take cultural factors into account when designing pay (Milkovich & Bloom, 1998). The matter is complicated by the absence of research on national sub-cultures and compensation, and by recent work which suggests that decisions to transfer pay practices by the parent MNE may not be totally based on national cultural grounds, but more for economic reasons (Dedoussis, 1995). There is little empirical work on which compensation designs are the most effective in different cultural settings. We do not know the extent to which job evaluation factors and processes of international job evaluation systems are adjusted to fit local national cultures and variables.

Figure 13.1 illustrated a contingency framework for a number of variables that might affect an MNE's subsidiary compensation design. At the present state of IHRM knowledge, each of these variables could form the basis for future research (Ferner, 1994). With the emphasis on SIHRM as opposed to IHRM, as defined earlier, the links between global and affiliate business strategies and compensation design are particularly crucial. The integration of compensation in 'bundles' of IHRM policies and practices is also an area that could be beneficially studied (Kochan, Batt & Dyer, 1992; Dyer & Reeves, 1995). Sparrow, Schuler and Jackson (1994) found evidence of a convergence in the use of HRM for competitive advantage and the role of MNEs in this convergence would be of interest. If MNE affiliates copy the pay practices of other MNEs in a host country (institutional theory), how might local employees react to this development (Gerhart & Milkovich, 1992)? There is some evidence of convergence of MNE subsidiary pay practices in some countries, although small

Chinese-owned firms operating alongside MNEs tend to retain local host country characteristics (Amante, 1995).

Turning to the MNE itself, there is potential for further research on the effect of different MNE structures on compensation design (perhaps on the lines of work by Roth and O'Donell, 1996), along with more studies on the effect of nationality, stage of maturity, size, nature of ownership, number of country locations, and the resource dependency of subsidiaries. The effect of MNE company culture on compensation design is another area currently under-researched as are the links of expatriate rewards with MNE strategic goals (Bonache & Fernández, 1997). The role of the regional office in compensation design has not been considered in depth, and might play an increasingly important role for many MNEs as they move into Asia.

Schuler, Dowling and De Cieri (1993) stressed the need for multi-disciplinary studies in future IHRM research. In relation to pay, we have concentrated on the design of systems by the MNEs, but have neglected the effect of different compensation designs on the attraction, motivation and retention of Australian and Singaporean employees. MNEs that replicate compensation designs (including incentive systems) in all their operating countries presumably assume that all employees will be attracted, motivated and retained in a similar way to that of the home country. Further research across cultures similar to that of Mamman, Sulaiman and Fadel (1996) would seem promising. More data are needed about the effect of age, gender, merit, performance, and loyalty in different cultures (Arvey, Bhagat & Salas, 1991). For example, it may be imprudent to assume that there are no differences between Chinese-based nations (Paik, Vance & Stage, 1996). Moreover, national cultures may change, which may affect the values of the employee towards compensation.

Finally, further research on the process by which compensation decisions are made across an MNE would inevitably have to draw on a range of disciplines. For example, what is the process by which the MNE head office decides to replicate a compensation system in an affiliate? All this suggests that we are some way from advocating how far an MNE can have common compensation designs across all its affiliates.

Conclusion

The main guiding question for this thesis was how the external environment of an MNE subsidiary influences the design of its compensation system. The thesis addressed the question by comparing the compensation design of five pairs of MNE subsidiaries and companies operating in Singapore and Australia. These cross-national comparisons of case studies were used as the basis for developing an explanatory framework, some propositions for further study and directions for further research. While there is an emerging literature on MNE compensation, few studies have examined the design of pay in MNE subsidiaries at all levels of employee, and assessed the effect of the external environment on design. Studies of affiliate compensation design of MNEs in relation to the local environment have tended to focus on MNE subsidiaries located in one country — usually the United States.

Through the use of cases on five pairs of MNE affiliates and companies, changes in compensation design over time have been examined. We have noted that assessing the influence of exogenous factors on affiliate compensation is complicated by definitional problems and by the close inter-relationship of these macro external variables such as the economy, legislation and rules, industrial relations system, role of government, and national culture. In addition, an affiliate may function with more than one compensation system across its various occupations. While the compensation design for every occupation in an MNE affiliate may not be directly attributable to elements of the external environment, the thesis has shown that some choices of compensation, particularly for lower level occupations, may have been constrained or expanded by the external environment, particularly legislation. The local economy and labour market affected the level of pay in the subsidiary; employment laws and industrial tribunals set national pay or conditions minima; union presence caused the formalisation of collective agreements; and national wage case principles and recommendations encouraged certain forms of pay mix and basis for pay. The study also found that there was an uneven conformity between the subsidiaries and companies with the compensation recommendations of Hodgetts and Luthans (1993b) for particular national cultures. This suggested that that other variables were more dominant in the choice of system, presuming that the recommendations were appropriate for Australian and Singaporean cultures.

The implications of the findings for IHRM theory and practice were also considered. While the findings from the cases cannot be generalised, the variety of cases highlighted the complicated nature of small and large international organisations, and the unique managerial challenges which they face. The emphasis of the thesis has been on the influence of the external environment on MNE subsidiary compensation, though we have shown that management still has considerable discretion in choice of pay system design. Using the Gomez-Mejia and Balkin (1992) compensation patterns, the research methodology has also demonstrated ways in which differences between the compensation of MNE affiliates can be expressed. One key finding from the five cases was that in only one MNE pair of subsidiaries and companies operating in Australia and Singapore were the compensation systems the same (using a single overall Algorithmic and Experiential classification) for all the selected occupations for study. Separating the reasons for differences in compensation systems for every occupational level in the subsidiaries of an MNE with precision is an opportunity for future IHRM research.

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APPENDIX 4.1

Questionnaire Check-list for Case Study Company Interviews

Date, time and location of interview
Stress Confidentiality
Use of Pseudonyms

Name of Company (Aust/Sing)
Name of interviewee/Position

Company Background

A. Background

1. Nature of industry
2. Main Technology
3. Main products (any brochures? Annual Reports?)
4. Range and nature of products markets
5. Competition - domestic/overseas
6. Customers
   - other firms
   - public
   -overseas
7. Size of Market (increasing/decreasing)

B. History/Ownership/Goals.

1. Ownership (any change over 25 years)
2. Organisation Structure (plus changes) Charts?
   - Levels in Hierarchy/Structure
   - Technology
   - Work Organisation
   - Skill Levels
3. Works Sites
4. Different Products
5. Corporate Philosophy
6. Culture of Organisation
   - social responsibilities
   - employees
   - customers
   - suppliers
   -government
   - distribution
   - stockholders
7. Major Objectives e.g.
   - growth
   - cost cutting
   - innovation
   - turnaround
8. Trend with investment/capitalisation
9. Market (Share of overall market)
   How do they compete?
   -price
   - quality
   - service
   - reliability
   - technical excellence of products
   - special characteristics
   -other?
10. How have these changed?

C. Business Plan/HRM Plans/Unions

1. Formal strategic and business plans
2. Formal stated policy/philosophy towards employees
3. Extent to which owners influence this.
4. Formal HRM objectives?
5. Are HRM (Objectives/issues) part of business plan?
   e.g., - cost cutting
   - flexibility
   - job design
6. Formal/Informal/ Ad Hoc HRM Procedures?
7. Formal/Informal/ Ad Hoc HRM Policies?
8. Presence of HRM Department/Specialist?
9. Is HRM strategy clear?
10. Industrial relations set-up
    - Unions/Shop Stewards
    - Density of membership
    - Negotiating set-up/Committees
    - Multiple unions and awards
11. How have these changed over time?

Compensation Systems

D. Reward (Salary/Wage) Structures (plus changes over e.g. 5 years)
Categories/Employee Numbers/Male/Female/Age Distribution

1. Industrial/Blue collar
   - Unskilled
   - Skilled
2. Clerical/Administrative (Award/Non Award)
3. Sales/Technical
4. Professional/Management
5. Board of Directors

1. Industrial/Blue Collar/Award (+History)

1.1 General

(a) Major awards or collective agreements in the industry.
(b) Major award or collective agreements for the company.
(c) No. of people on each of the awards/collective agreement.
(d) Character - industry/occupation awards/agreements -
-Federal/State
(e) Over-award policy.
(f) Negotiations and process of setting up new awards.
(g) Role of Industrial Tribunals.
(h) Enterprise Agreements.
(I) Impact of industry-wide negotiations.
(j) Base pay/Over-awards proportions.
(k) Incentives/Fixed/Individual/Group -
-types.
(l) Job Evaluation/Work Value Schemes.
(m) Total wage.
(n) Allowances
(o) Hours of work
(p) Shift Work
(q) Overtime
(r) Method of pay -

-weekly
-hourly
-casual

(s) Labour Market
(t) Penalty Rates
(u) Piece Rates
(v) Leave
(w) Singapore Bonus/AWS/Co. bonus
(x) Gain Sharing
(y) Employee/Fringe Benefits

1.2 Basis for Pay

(a) Job -v- skills
(b) Performance -v- seniority
(c) Short-term -v- Long-term
(d) Hierarchy -v- Egalitarian
(e) Internal -v- External
(f) Measured performance
(g) Pay for age
(h) Education qualifications bonus
(i) Pay level in line with Market
(j) Open/Secret philosophy
(k) Participation in design

D2. Clerical/Administrative

1.1 General

(a) Philosophy
(b) Policy
(c) Major awards
(d) No. of people on each
(e) Character
-Industry/Occupational
-State/Federal/awards/agreements
(f) Over-award
(g) Negotiations/Determination
(h) Role of industrial tribunals
(i) Enterprise agreements
(j) Industry wide negotiations
(k) Job evaluation?
-type/range?
(l) Performance bonuses
(m) Classifications?
(n) Base pay/over-award/range
(o) Incentives - type
(p) Bonus?
(q) Allowances
(s) Shift work
(t) Overtime
(u) Method of Pay
- Weekly
- Hourly
- Casual
(v) Labour Market
(w) Penalty Rates
(x) Leave
(y) Gainsharing
(2) Employee Benefits

1.2 Basis for Pay

(a) Job v. skills
(b) Performance v. seniority
(c) Short-term v. Long-term
(d) Hierarchy v. Egalitarian
(e) Internal v. External
(f) Measured performance
(g) Pay for age
(h) Education qualification bonus
(i) Pay level in line with Market
(j) Open/Secret philosophy
(k) Participation in Design

D.3 <u>Sales/Technical</u>

1.1 <u>General</u>

(a) Philosophy
(b) Policy
(c) Major awards
(d) No. of people on each
(e) Character - Industry/Occupational
- State/Federal
(f) Over-award
(g) Negotiations/Determination
(h) Role of industrial tribunals
(I) Enterprise agreements
(j) Industry wide negotiations
(k) Job evaluations?
- type/range?
(l) Performance bonuses
(m) Classifications?
(n) Base/pay/over-award/range
(o) Incentives - type
(p) Bonus?
(q) Allowances
(r) Hours of Work
(s) Shift work
(t) Overtime
(u) Method of Pay - Weekly
- Hourly
- Casual
(v) Labour Market
(w) Penalty Rates
(x) Leave
(y) Gainsharing
(z) Employee Benefits

1.2 <u>Basis for Pay</u>

(a) Job v. skills
(b) Performance v. seniority
(c) S/T v. L/T
(d) Hierarchy v. Egalitarian
(e) Internal v. External
(f) Measured performance
(g) Pay for age
(h) Education qualifications bonus
(i) Pay level in line with market
(j) Open/Secret philosophy
(k) Participation in design

D4. <u>Professional/Managerial</u>

1.1 General
(a) Philosophy
(b) Policy
(c) Award free?
(d) Base Pay
(e) Incentives/Bonuses
(f) Allowances
(g) Profit sharing
(h) Determination
(i) Performance Appraisal Systems
(j) Job Evaluation Method
(k) Flexibility
(l) Bonus
(m) Hierarchy
(n) Fringe Benefits - choice
(o) Performance standards
(p) Gainsharing
(q) Employee Benefits

1.2 Basis for Pay
(a) Job v. skills
(b) Performance v. seniority
(c) Short-term v. Long-term
(d) Hierarchy v. Egalitarian
(e) Internal v. External focus
(f) Measured performance
(g) Educational qualifications and pay
(h) Pay level in line with market
(i) Open/Secret philosophy
(j) Participation in design

D5. Board of Directors
(a) Determination
(b) Salaries/job evaluation
(c) Profits/Shares
(d) Fringe Benefits
(e) Bonuses
(f) Approval mechanism

D6. Expatriates
- Numbers
- Home Country
- Basis of expatriate pay and conditions
- Location of determination of pay

External Factors

E. How do you perceive the following as an influence or constraint on the nature of the pay systems chosen in your company?

1. Law
(a) Common Law
(b) Minimum Wage
(c) Equal Pay
(d) Fringe Benefits Tax (1986) (Australia)
(e) Income Tax
(f) Affecting Profits
(g) Affecting share ownership/distribution
(h) Social Security
(i) CPF/Superannuation legislation

(j) Industrial Relations legislation
(k) Employment Act (Singapore)

2. **Economic**
(a) Rate of economic growth
(b) Inflation
(c) Globalisation and competition
(d) Levels of Employment/Unemployment
(e) Demand and Supply for labour

3. **Government Policies**
(a) Government policies
(b) Incomes Policies
(c) Interventionist/Laissez Faire Approaches to Pay Systems/Levels
(d) Role of Public Sector Pay Systems

4. **Societal**
(a) Status systems
(b) Society Trends/values
(c) National Culture
(d) Work Ethic - attitude to achievement
(e) Motivators - pay/effort
(f) Attitude to wealth/material gain
(g) Independence/team culture
(h) Concepts of effort/commitment
(i) Comparable Worth

5. **Trade Unions/Industrial Relations**
(a) TU's views on pay structure
(b) Industrial tribunals
(c) Pay determination systems
(d) TU structure/density
(e) The Accord (Australia)
(f) AIRC National Wage Principles/Cases (Australia)
(g) AIRC Structural Efficiency Principles 1988 (Australia)
(h) National Wages Council Decisions (Singapore)

6. **Local Labour Market**
(a) Trends in Compensation (including benefits)
(b) Levels of Pay

APPENDIX 4.2

Employee Benefits Profile

	Industrial/ Blue Collar Unskilled	Industrial/ Blue Collar Skilled	Clerical/ Admin	Sales/ Technical	Professional/ Management	Board
Acting allowance						
Annual leave						
Attendance allowance						
Business entertainment expenses						
Cellular phones						
Co-operative shares						
Compassionate leave						
Death benefit						
Dental treatment						
Early retirement schemes						
External/social recreational club membership						
Festive loan/advance						
Fixed monthly transport allowance						
Free medical treatment/medicine						
Funeral leave benefit						
Hospital ward benefit						
Housing loan						
Housing renovation loan						
Laundry benefit						
Life insurance						
Long service award						
Long-term illness						
Machine allowance						
Marriage leave						
Maternity leave						
Meal allowance						
Medically board-out benefit						
Other loans						
Paternity leave						
Personal insurance						
Provision of car						
Reimbursement for use of own car on company business						
Retirement benefit (>CPF) [Singapore]						
Retrenchment benefit						
Service benefit						
Shift allowance						
Sick leave						
Specialist surgical fee						
Study leave benefit						
Superannuation (Australia)						
Transport benefit/allowance/ reimbursement						
Uniform						
Union day leave						
Union education leave						
Unpaid leave						
Voluntary resignation benefit						

APPENDIX 4.3

TABLE 3-1
Summary Profile of Experiential and Algorithmic Compensation Patterns

	Compensation Strategy*	
Basis for Pay	**Algorithmic**	**Experiential**
Unit of analysis	Job	Skills
Criteria for pay increases	Tenure	Performance
Level of performance measurement	Individual	Individual and aggregate
Time orientation	Short-term	Long-term
Risk sharing	Low	High
Strategic focus	Corporate	Division and business unit
Equity concern	Internal consistency	Market driven
Reward distribution	Hierarchical	Egalitarian
Type of control	Monitor of behaviors	Monitor of outcomes
Design Issues		
Salary market policy	Above market pay	Below market pay
Benefits market policy	Above market benefits	Below market benefits
Incentives in pay mix	Low	High
Total compensation	Low future potential with higher immediate payoffs	High future potential with lower immediate payoff
Reinforcement schedule	Fewer rewards with low frequency	Multiple rewards with high frequency
Reward emphasis	Nonmonetary	Pecuniary
Administrative Framework		
Decision making	Centralized pay	Decentralized pay
Pay disclosure	Low	High
Governance structure	Authoritarian	Participative
Nature of pay policies	Bureaucratic	Flexible
Superior dependency	High	Low

*Based on the research of Gomez-Mejia (1992).

Source: Gomez-Mejia and Balkin, D.B. (1992) Compensation, Organizational Strategy, and Firm Performance, Cincinnati, Ohio, South-Western Publishing, Tables 3.1 and 3.2, pp.61–65

TABLE 3-2
Compensation Elements Associated with the Algorithmic and Experiential Pay Patterns*

Basis for Pay	Strategic Compensation Pattern
Jobs vs. Skills	
Firm uses a job-based pay system. That is, factors within the job are key determinants of the amount of pay.	Algorithmic
Company relies on a skill-based pay system. That is, individuals are rewarded in part on their mastery of job skills.	Experiential
The job is a more important factor than an incumbent's ability or performance in the determination of pay rates. Heavy emphasis is placed on job evaluation procedures to determine pay levels.	Algorithmic
Performance Emphasis	
Firm has a strong commitment to distribute rewards based upon contributions to organization.	Experiential
There is a large pay spread between low performers and high performers in a given job.	Experiential
An employee's seniority plays an important role in pay decisions.	Algorithmic
Individual vs. Aggregate Performance	
Individual appraisals are used almost exclusively with little variance in performance ratings.	Algorithmic
Interdependencies are seldom taken into account when making decisions about an individual's pay.	Algorithmic
Short- vs. Long-Term Orientation	
The pay system has a futuristic orientation. It focuses employee's attention on long-term (two or more years) goals.	Experiential
The pay system rewards employees for short-term accomplishments during a fixed time period.	Algorithmic
Risk Sharing	
A portion of an employee's earnings is contingent on achievement of group or organization performance goals.	Experiential
Compensation system is designed so that a significant proportion of total labor costs is variable in nature.	Experiential
Firm strongly believes that employees should be risk takers with some of their pay.	Experiential
Corporate vs. Business Unit Performance	
Corporate performance is used as criteria for pay decisions concerning top management and aggregate incentive programs (e.g. gainsharing, profit sharing) for employees.	Algorithmic
Division or business unit performance is used as criterion to reward executives and determine aggregate incentive dollars for employers.	Experiential

*Based on the research of Gomez-Mejia (1992).

TABLE 3-2 (Continued)
Compensation Elements Associated with the Algorithmic and Experiential Pay Patterns

Internal Consistency in Pay Relationships vs. Market Forces	
Internal pay equity is an important goal of the pay system.	Algorithmic
The firm tries hard to achieve comparable pay relationships across different parts of the organization.	Algorithmic
The firm gives a higher priority to internal pay equity than to external market factors.	Algorithmic
Emphasis on Hierarchy and Status Differentials	
The compensation system reflects a low degree of hierarchy. In other words, firm offers a minimum of perks (reserved parking spots, first-class air travel, etc.) to top executives.	Experiential
Firm offers special pay packages and privileges as status symbols to the higher echelons in the organization.	Algorithmic
Firm tries to make pay system as egalitarian as possible. There are very few special rewards available to any "elite" groups of employees.	Experiential
Quantitative vs. Qualitative Performance Resources	
Firm relies heavily on objective performance measures (e.g. earnings per share, return on investment) as a basis for top executive pay and aggregate incentive programs (e.g. gainsharing, profit sharing).	Experiential
Firm relies on subjective evaluations to monitor subordinates.	Experiential
Design Issues	
Pay Policy Relative to Market	
Preferred position of organization's salary levels with respect to competitors is clearly above market.	Algorithmic
Preferred position of organization's benefits level with respect to competitors is clearly above market.	Algorithmic
Role of Salary and Benefits in Total Pay Mix	
Base salary is an important part of the total compensation package.	Algorithmic
Base salary is high relative to other forms of pay that an employee may receive in the organization.	Algorithmic
Benefits are an important part of total package.	Algorithmic
Employees' benefits package is very generous compared to what it could be.	Algorithmic
Role of Pay Incentives in Total Pay Mix	
Pay incentives such as a bonus or profit sharing are an important part of the compensation strategy in this organization.	Experiential
Pay incentives are designed to provide a significant amount of an employee's total earnings in this organization.	Experiential

TABLE 3-2 (Continued)
Compensation Elements Associated with the Algorithmic and Experiential Pay Patterns

Design Issues	Strategic Compensation Pattern
Frequency of Rewards	
Bonuses are provided often; frequency of bonuses is viewed at least as important as their magnitude.	Experiential
Organization provides a variety of deferred compensation plans in addition to bonuses.	Experiential
Firm relies on annual pay raises, which may include both a merit and a cost-of-living component.	Algorithmic
Reliance on Pecuniary vs. NonMonetary Rewards	
Firm tries hard to meet the psychological needs of employees by offering intrinsic rewards through such means as job enrichment and quality of work life programs. Monetary rewards are underemphasized.	Algorithmic
While intrinsic aspects of the job are not ignored, firm clearly uses pecuniary rewards as a crucial part of its human rewards strategy.	Experiential
Administrative Framework	
Autonomy vs. Centralization	
Pay policy is applied uniformly across all organizational units.	Algorithmic
The personnel staff in each business unit has freedom to develop its own compensation programs.	Experiential
There is a minimum of interference from corporate headquarters with respect to pay decisions made by line managers.	Experiential
Pay Disclosure vs. Secrecy	
Firm keeps pay information secret from employees.	Algorithmic
Firm has formal policies that discourage employees from divulging their pay to co-workers.	Algorithmic
Firm does not openly disclose the administrative procedures on how pay levels and pay raises are established.	Algorithmic
Participative vs. Authoritarian Pay System Design	
Employees' feelings and preferences for various pay forms (e.g. bonus vs. profit sharing) are taken very seriously by top management.	Experiential
Many different kinds of employees (individual contributors, managers, personnel staff, executives) have a say in pay policies.	Experiential
Pay decisions are made on an autocratic basis. Firms tend to "follow the book" very closely. Very few employees have any input to pay decisions.	Algorithmic
Bureaucratic vs. Flexible Policies	
Pay system is highly regimented with procedures carefully defined.	Algorithmic
Compensation structure is very complex yet changes very slowly.	Algorithmic
While general rules exist, many pay decisions are one of a kind with considerable discretion on a case by case basis.	Experiential

APPENDIX 5.1

SINGAPORE NWC WAGE INCREASES/GUIDELINES, 1972-95

NWC Year	Private Sector	Public Sector[1]
1972	6 per cent (without offsetting of annual increment)	—
1973	9 per cent (with varying rates of offsetting depending on salary)	9 per cent (without offsetting)
1974	$40 + 6 per cent (without offsetting of annual increments) $40 + 10 per cent (for employees who have not received an annual increment)	$40 + 6 per cent (without offsetting for employees earning less than $1,000 per month) 10 per cent (without offsetting for employees earning at least $1,000 per month)
1975	6 per cent (with full offsetting of annual increments provided that those employees who are on incremental scales received a minimum increase after offsetting of 3 per cent; for those of the maximum of their pay scales, the wage increase was 3 per cent)	6 per cent (with full offsetting of annual increments provided that those on incremental scales received a minimum increase after offsetting of 3 per cent; for those at the maximum of their pay scales, the wage increase was a full 6 per cent)
1976	7 per cent (with full offsetting of annual increments on a group basis)	7 per cent (with full offsetting of annual increments on a group basis)
1977	6 per cent (with full offsetting of all forms of increases in remuneration on a group basis)	6 per cent (with full offsetting of all forms of increases in remuneration on a group basis)
1978	$12 + 6 per cent (with full offsetting of all forms of increases in remuneration on a group basis)	$12 + 6 per cent (with full offsetting of all forms of increases in remuneration on a group basis)
1979	$32 + 7 per cent (with full offsetting of all forms of increases in remuneration on a group basis)	$32 + 2.5 per cent (subject to a minimum of 7 per cent)
1980	$33 + 7.5 per cent (with full offsetting of all forms of increases on a group basis) AND an additional 3 per cent of the group monthly wage bill of June 1980, to be distributed only among above average employees	$33 + 7.5 per cent (with full offsetting of all forms of increases on a group basis) AND an additional 4 per cent for above average employees
1981	$32 + 6 per cent to $32 + 10 per cent (with full offsetting of all forms of increases on a group basis) AND an additional 2 per cent of the group monthly wage bill of June 1981, to be distributed only among meritorious performers	$32 + 5 per cent (subject to a minimum of 11 per cent) AND an additional 5 per cent of the group monthly wage bill of June 1981, to be distributed only among meritorious performers
1982	$18.50 + 2.5 per cent to $18.50 + 6.5 per cent (with full offsetting of all forms of increases on a group basis)	$18.50 for employees earning $568 per month or less 3.25 per cent for those earning more than $568 per month
1983	$10 + 2 per cent to $10 + 6 per cent (with full offsetting of all forms of increases on a group basis)	$10 + 1.3 per cent for employees earnings $604 per month or less 3 per cent for those earning more than $604 per month

1 The NWC wage increases for the public sector were for employees who were not in the superscale or equivalent grades of officers. The latter were considered on a different basis.

NWC Year	Private Sector	Public Sector
1984	$27 + 4 per cent to $27 + 8 per cent (with full offsetting of all forms of increases on a group basis)	$27 + 4.2 per cent for employees earning $680 per month or less. 8.2 per cent for those earning more $680 per month.
1985	3 to 7 per cent (with full off-setting of all forms of increases on a group basis.	Zero per cent after off-setting
	BOTH SECTORS COMBINED	
1986 & 1987	Wage restraint. Wages standstill except for contractual increments.	
1988 & 1989	Total wage increase should be given in two parts - a moderate basic wage increase and a variable payment/bonus linked to company/ individual performance or productivity. Total wage increase should lag behind productivity growth.	
1990	Built-in wage increase (annual increments plus wage adjustments) should lag behind productivity growth. Companies performing well should however reward employees with higher variable bonus.	
1991	Total wage increase for 1991 should be lower than that of last year, in line with the expected slower economic growth. Built-in-wage increase (annual increments plus wage adjustments) should lag behind productivity growth. Companies performing well should however reward employees with higher variable bonus.	
1992	Total wage increases should be moderated in line with slower economic growth. Built-in wage increases should lag behind productivity growth rates. Wage increases should, as far as possible, be in the form of variable components. Total wage increases should be based on the individual company's performance. Employers encouraged to allow people to retire at 60 years or above. Part-time employment to be encouraged. Companies should set aside at least 4 per cent of payroll for training. NWC guides to apply to all levels of staff.	
1993	Built-in pay rises should lag behind productivity growth. Total wage increases should, as far as possible, be in the form of a variable payment. Successful companies should consider special bonuses. Companies with flexi-wage systems should pay according to their agreed formula. Adjustments should be in the form of variable pay. Employers to be encouraged to employ people until 60 years of age, and use part-time staff. Employers recommended to set aside 4 per cent of payroll for training.	
1994	Built-in wage increases should lag behind productivity growth rates. Total wage increases should reflect the favourable performance of the economy. Variable payments should reflect company performance. One-off special bonuses for exceptionally performing companies.	
1995	Total wage increases should reflect the performance of the economy. Built-in wage increases should lag behind productivity growth. Companies should pay as much as possible of their wage increase in the form of a variable component. The variable component should reflect the performance of the company. The variable component should be 20 per cent of total annual wages. Companies should consider paying in advance part of the total annual variable payment based on their performance. Successful companies should consider paying a one-off special bonus to reward their employees. Recommended a maximum/minimum salary rates of between 1.5 to 2 times in a salary range for workers doing the same job.	

Source: Extracted from National Wages Council (1992) 21 Years of the National Wages Council, Singapore, SNP Publishers and copies of pp.xv-xvi.

Summary of National Wage Case Decisions by the Full Bench of the Australian Industrial Relations Commission 1975-95

Date	*CPI*	*Date Increase*	*Amount*
March '75	3.6%	15 May 1975	3.6%
June '75	3.5%	18 September 1975	3.5%
October '75	0.8%		
December '75	5.6%	15 February 1976	6.4%
March '76	3.0%	15 May 1976	3.0% to $125 p/week thereafter $3.80/week
June '76	2.5%	15 August 1976	2.5% to $98 p/w, flat $2.50 to $166 p/w, then 1.5%
October '76	2.2%	15 November 1976	2.2%
December '76	6.0%	31 March 1977	$5.70 p/w to all adults
March '77	2.3%	24 May 1977	1.9% to $200 p/week thereafter $3.80 p/week
June '77	2.4%	22 August 1977	2.0%
September '77	2.0%	12 December 1977	1.5%
December '77	2.3%	28 February 1978	1.5% to $170 p/w thereafter $2.60 p/w
March '78	1.3%	7 June '1978	1.3%
June '78 and	2.1% }		
September '78	1.9% }	12 December 1978	4%
December '78	2.3% }		
and March '79	1.7% }	27 June 1979	3.2%
June '79 and	2.7% }		
September '79	2.3% }	4 January 1980	4.5%
December '79	3.0% }		
and March '80	2.2% }	14 July 1980	4.2%
June '80 and	2.8% }		
September '80	1.9% }	9 January 1981	3.7%
December '80	2.1% }	7 May 1981	3.6%
and March '81	2.4% }	14 May 1982	No increase

On 23 December 1982 the Commission announced a "freeze" on all Federal Award wages to apply from then until 30 June 1983.

March '83	2.2% }		4.3% (made under new
June '83	2.1% }	6 October 1983	principles)
September '83	1.6% }		
December '83	2.4% }	6 April 1984	4.1%

No increase was granted to cover the March 1984 and June 1984 quarters, as the CPI decreased during this period.

September '84	1.4% }		2.6% (discounted for
December '84	1.4% }	6 April 1985	previous negative movement)
March '85	1.4% }		
June '85	2.4% }	4 November 1985	3.8%
September '85	2.2% }		
December '85	2.0% }	1 July 1986	2.3%
March '86	2.3% }		First tier increase of
June '86	1.7% }		$10 across-the-board
September '86	2.6% }		p/week plus second tier
December '86	2.9% }	10 March 1987	increase of up to 4% to be negotiated between parties.

Date	*CPI*	*Date Increase*	*Amount*
March '87	2.0% }		
June '87	1.5% }		
September '87	1.7% }	5 February 1988	$6 across-the-board per week
December '87	1.7% }		
March '88	1.8% }		3% increase to apply no earlier than 1 September 1988, plus flat $10 p/w increase to apply no earlier than 6 months after the effective date of the 3% increase.
June '88	1.7% }	1 September 1988	
September '88	1.9% }		Subject to ratification of Commission and completion of successful exercises under Structural Efficiency Principle: $10 p/week for basic skills/trainee workers; $12.50 p/w for semi-skilled; $15 p/w or 3%, whichever is higher, for trades level and above; to apply no earlier than 7 August 1989; plus second increase of same order payable not less than 6 months after first increase. Second increase also subject to ratification.
December '88	2.1% }		
March '89	1.0% }	7 August 1989	
June '89	2.4% }		
September '89	2.3% }		2.5% increase in award rates upon application to Commission. Applies from date of variation of relevant award.
December '89	1.9% }		
March '90	1.7% }		
June '90	1.6% }	16 April 1991	
September '90	0.7% }		
December '90	2.7% }		
October '93	2.2%	1 December 1993	$8 per week to minimum rate awards.
September '94	1.7%	22 September 1994	$8 per week - replaces the October 1993 adjustment. $8 p/w - at enterprise level.
October '95		22 March 1995	$8 -p/w at award level
		22 September 1995	$8 - p/w at enterprise level
		22 March 1996	$8 - p/w at award level

Notes: CPI = Consumer Price Index. P/W= per week. Note that the link between wage cases and the CPI was broken from 1987 onwards. The CPI figures since then are inserted here as a guide only.

Source: CCH (1997) Australian Resource Management, Sydney, CCH Australia, pp5671-5673

APPENDIX 12.1

Summary Profiles of Algorithmic (A) and Experiential (E) Compensation Patterns for Three Occupational Groups in Australian Subsidiaries and Companies as at 1995.

AUSTRALIAN COMPANY	OPERATING/INDUSTRIAL					CLERICAL					MANAGERIAL				
	OILCO	FOODCO	BUILDCO	M* METALCO	H.** TECH	OILCO	FOODCO	BUILDCO	M* METALCO	H.** TECH	OILCO	FOODCO	BUILDCO	M* METALCO	H.** TECH
(a) Basis for Pay															
Unit of Analysis	E	E	E	E	E	A	A/E	A	A	E	A	A	A	A	A
Criteria for pay increases	A	A	A/E	A/E	A	A	A	E	A/E	E	A/E	E	A/E	A/E	E
Level of Performance Measure	N/A	N/A	E	A	N/A	N/A	A	E	A	A	E	E	E	A	E
Time Orientation	A	A	A	A	N/A	A	A	A	A	A	A	A	A	A/E	A
Risk Sharing	A	A	A	A	A	A	A	A	A	A	E	E	E	A	E
Strategic Focus	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	A	A	E	E	E
Equity Concern	A/E	A/E	A/E	A	A	A/E	A/E	A/E	A	E	A/E	A/E	A/E	A	A
Reward Distribution	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Type of Control	N/A	N/A	E	A	A	N/A	E	E	A	A	E	E	E	E	E
(b) Design Issues															
Salary market policy	U/K	U/K	U/K	U/K	U/K	U/K	A	A	U/K	U/K	A	A	A	U/K	U/K
Benefits market policy	U/K	U/K	U/K	U/K	U/K	U/K	A	U/K	U/K	U/K	A	A	U/K	U/K	U/K
Incentives in pay mix	A	A	A	A	A	A	A	A	A	A	E	A	E	A	E
Total compensation	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Reinforcement Schedule	A	A	E	A	A	A	A	A	A	A	A	A	A	A	A
Reward Emphasis	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
(c) Administrative Framework															
Decision Making	E	E	E	E	E	E	E	E	A	A	A	A	A	A	A
Pay Disclosure	E	E	E	E	E	E	E	A	E	A	A	A	A	A/E	A
Governance Structure	E	E	E	E	E	E	E	A	E	A	E	A	A	A	E
Nature of pay policies	A	A	E	A	A	A	A	A	A	E	A	A/E	A	A	E
OVERALL A or E***	A	A	E	A	A	A	A	A	A	A	A	A	A	A	A/E

Notes : N/A = *Metalco as at 1993. ** High Tech Australia is defined as a company. *** The stated general compensation pattern for each subsidiary's occupation is based on those common compensation elements in each pair of subsidiaries for which data were available in both. A/E=Balance of A and E. N/A= Not applicable. U/K = Unknown.

APPENDIX 12.2

Summary Profiles of Algorithmic (A) and Experiential (E) Compensation Patterns for Three Occupational Groups in Singaporean Subsidiaries as at 1995.

SINGAPORE COMPANY	OPERATING/INDUSTRIAL					CLERICAL					MANAGERIAL				
	OILCO	FOODCO	BUILDO	M*ETALCO	H. TECH	OILCO	FOODCO	BUILDCO	M*ETALCO	H. TECH	OILCO	FOODCO	BUILDCO	M*ETALCO	H. TECH
(a) Basis for Pay															
Unit of Analysis	A	E	E	A	**	A	A/E	A	A	E	A	A	A	A	A
Criteria for pay increases	A	A	A/E	A		A	A/E	A	A	E	A/E	E	E	E	E
Level of Performance Measure	N/A	E	E	N/A	-	N/A	E	E	N/A	E	E	E	A	A	A
Time Orientation	A	A	A	A	-	A	A	A	A	A	A	A	A	A	A
Risk Sharing	E	E	E	E	-	E	E	E	E	E	E	E	E	E	E
Strategic Focus	N/A	N/A	N/A	N/A	-	N/A	N/A	N/A	N/A	N/A	A	E	E	E	E
Equity Concern	A/E	A/E	A	A/E	-	A/E	E	E	E	E	A/E	E	E	E	E
Reward Distribution	A	A	A	A	-	A	A	A	A	A	A	A	A	A	E
Type of Control	N/A	E	E	N/A	-	N/A	E	N/A	N/A	A	E	E	E	E	E
(b) Design Issues															
Salary market policy	A	A	A	U/K	-	A	A	A	A	U/K	A	A	A	U/K	U/K
Benefits market policy	A	A	U/K	U/K	-	A	A	U/K	U/K	U/K	A	A	U/K	U/K	U/K
Incentives in pay mix	E	E	E	A	-	E	E	E	A	A/E	E	E	E	A	E
Total compensation	A	A	A	A	-	A	A	A	A	A	A	A	A	A	A
Reinforcement Schedule	A	E	E	A	-	A	E	A	A	A	A	A	A	A	A
Reward Emphasis	E	E	E	E	-	E	E	E	E	E	E	E	E	E	E
(c) Administrative Framework															
Decision Making	A	E	E	E	-	A	E	E	E	E	A	A	A	E	E
Pay Disclosure	E	E	E	A	-	E	A	A	A	A	A	A	A	A	A
Governance Structure	E	E	E	A	-	E	A	A	A	A	A	A	A	A	A
Nature of pay policies	A	A	A	E	-	A	A	E	E	E	A	A/E	E	E	E
OVERALL A or E***	A	E	E	A	-	A	A/E	M/A	A	A/E	A	M/A	M/A	A/E	E

Notes :* Metalco as at 1993. ** No operators or industrial staff in this subsidiary. ***The stated general compensation pattern for each subsidiary's occupation is based on those common compensation elements in each pair of MNE subsidiaries for which data were available and applicable in both. N/A = Not applicable.

APPENDIX 12.3

Frequency of Employee Benefits in Case Study Subsidiaries and Companies* in Australia

	Industrial/ Blue Collar Unskilled	Skilled	Clerical/ Admin	Sales/ Technical	Professional/ Management	Board
	Total out of 5	Total out of 5	Total out of 5	Total out of 5	Total out of 5	Total out of 3**
Acting allowance	2	2	2			
Annual leave	5	5	5	5	5	3
Attendance allowance	1	1				
Business entertainment expenses	1	1	1	3	4	2
Cellular phones	2	2	3	3	3	3
Co-operative shares	2	2	3	3	4	3
Compassionate leave	5	5	5	5	5	3
Death benefit	3	3	3	3	3	2
Dental treatment			1	1	2	1
Early retirement schemes	2	2	2	2	2	1
External/social recreational club membership	1	1	1	2	4	3
Festive loan/advance						
Fixed monthly transport allowance						
Free medical treatment/medicine	1	1	2	2	2	1
Funeral leave benefit	2	2	2	2	2	1
Hospital ward benefit			1	1	3	2
Housing loan				1	2	
Housing renovation loan						
Laundry benefit	2	2				
Life insurance			1	1	1	
Long service award	4	4	5	5	5	3
Long-term illness	3	3	5	4	4	3
Machine allowance	1	1				
Marriage leave						
Maternity leave	5	5	5	5	5	3
Meal allowance	5	5	2			
Medically board-out benefit	2	2	2	2	2	2
Other loans					2	1
Paternity leave	5	5	5	4	4	2
Personal insurance				1	1	1
Provision of car			1	5	5	3
Reimbursement for use of own car on company business	2	3	3	3	3	2
Retirement benefit (>CPF) [Singapore]						
Retrenchment benefit	5	5	5	5	5	3
Service benefit					1	1
Shift allowance	5	5	2		1	
Sick leave	5	5	5	5	5	3
Specialist surgical fee			1	1	1	
Study leave benefit	4	4	4	4	5	1
Superannuation (Australia)	5	5	5	5	5	3
Transport benefit/allowance/ reimbursement	3	3	3	3	3	2
Uniform	5	5	2	2	1	
Union day leave						
Union education leave	4	4	2	1	1	
Unpaid leave	3	3	4	4	4	2
Voluntary resignation benefit	2	2	2	2	2	1

Note: * High Tech Australia is interpreted as a company in the thesis. **Only three subsidiaries and companies had boards of directors.

APPENDIX 12.4

Frequency of Employee Benefits in Case Study Subsidiaries in Singapore

	Industrial/Blue Collar Unskilled	Skilled	Clerical/ Admin	Sales/ Technical	Professional/ Management	Board
	Total out of 4*	Total out of 4*	Total out of 5	Total out of 5	Total out of 5	Total out of 2**
Acting allowance	3	3	1	1	1	
Annual leave	4	4	5	5	5	2
Attendance allowance						
Business entertainment expenses			1	4	4	2
Cellular phones	1	1	1	3	2	2
Co-operative shares	1	1	1	1	1	
Compassionate leave	4	4	5	5	5	2
Death benefit	3	3	4	4	3	1
Dental treatment	2	2	3	3	3	1
Early retirement schemes	1	1	1	1	1	1
External/social/club membership					1	2
Festive loan/advance	3	3	3	3	2	
Fixed monthly transport allowance	1	1	2	3	2	1
Free medical treatment/medicine	4	4	5	5	5	1
Funeral leave benefit	3	3	3	3	3	1
Hospital ward benefit	4	4	5	5	5	2
Housing loan	1	1	1	1	1	1
Housing renovation loan						
Laundry benefit	2	2				
Life insurance	1	1	3	3	2	1
Long service award	3	3	4	4	4	1
Long-term illness	3	3	4	4	4	1
Machine allowance						
Marriage leave	2	2	3	3	3	1
Maternity leave	4	4	5	5	5	2
Meal allowance	3	3	1	1	1	
Medically board-out benefit	1	1	1	1	1	1
Other loans					1	
Paternity leave	2	2	2	2	2	1
Personal insurance	1	1	1	1	1	
Provision of car				1	3	2
Reimbursement for use of own car	1	1	3	5	4	1
Retirement benefit (>CPF)						
Retrenchment benefit	3	3	3	3	3	
Service benefit	2	2	2	2	1	
Shift allowance	4	4		1		
Sick leave	4	4	5	5	5	2
Specialist surgical fee	4	4	5	5	5	2
Study leave benefit	3	3	4	4	4	
Transport benefit/allowance/ reimbursement	4	4	5	4	3	
Uniform	4	4	1	2		
Union day leave	1	1				
Union education leave	2	2	1			
Unpaid leave	1	1	2	2	2	
Voluntary resignation benefit						

Notes: *Some subsidiaries did not have industrial staff. ** Only two subsidiaries had board of directors in Singapore.

The Hodgetts and Luthans Recommendations for
Compensation in Australia as reflected by Australian Subsidiaries and Companies as at 1995

AUSTRALIAN COMPANY		OPERATING/INDUSTRIAL					CLERICAL					MANAGEMENT				
Hofstede Dimension Index	**Hodgetts and Luthans Recommended Compensation**	OILCO	FOODCO	BUILDCO	M* METALCO	H.** TECH	OILCO	FOODCO	BUILDCO	M* METALCO	H.** TECH	OILCO	FOODCO	BUILDCO	M* METALCO	H.** TECH
1. Moderately low Power Distance	• Low salary gaps - lowest/highest	N	Y	Y	Y	Y	N	Y	u/k	Y	u/k	N	u/k	u/k	u/k	u/k
	• Low benefits gaps	N	N	N	Y	N	N	N	N	Y	N	N	N	N	N	N
	• Gainsharing	N	N	Y	N	N	N	N	Y	N	N	N	N	N	N	N
	• Profit-sharing	N	N	N	N	N	N	N	N	N	N	Y	Y	Y	N	Y
2. High Individualism	• Individual performances - based	N	N	N	P	N	N	N	Y	Y	Y	Y	Y	Y	Y	Y
	• External equity/competitiveness	Y	Y	Y	N	N	YN	Y	Y	N	Y	Y	Y	Y	Y	Y
	• Short-term achievements	N	N	Y	Y	N		N	Y	Y	Y	Y	Y	Y	Y	Y
3. Moderately high Masculinity	• Few family benefits	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
	• Gender pay differences	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
4. Moderately weak Uncertainty Avoidance	• Emphasis on performance	N	N	Y	Y	N	N	N	Y	Y	Y	Y	Y	Y	Y	Y
	• Sharing of risks associated with success or failure	N	N	N	N	N	N	N	N	N	N	Y	Y	Y	N	Y
	• Competitive salaries	Y	Y	P	N	N	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
	• Decentralised pay policies***	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	N	N	N	N
	SUPORTED Y (Yes)	4	5	7	6	3	4	5	8	6	6	8	8	8	6	8
	NOT SUPPORTED N (No)	9	8	5	6	10	9	8	4	7	6	5	4	4	6	4
	UNKNOWN	-	-	-	-	-	-	-	1	-	1	-	1	1	1	1
	PARTLY SUPPORTED (P)	-	-	1	1	-	-	-	-	-	-	-	-	-	-	-

Notes: N = Not supported. Y = supported. P = Partly supported. U/K = Unknown. *Position as at 1993. **High Tech Australia is defined as a company. ***Interpreted as meaning within the Australian subsidiary (or company in High Tech Australia), and not the whole MNE where the owner is European.

APPENDIX 13.2

The Hodgetts and Luthans Recommendations for
Compensation in Singapore as reflected in Singaporean Subsidiaries as at 1995

SINGAPOREAN COMPANY		OPERATING/INDUSTRIAL					CLERCIAL					MANAGEMENT				
Hofstede Dimension Index	**Hodgetts and Luthans Recommended Compensation**	OILCO	FOODCO	BUILDO	M*ETALCO	H. TECH	OILCO	FOODCO	BUILDCO	M*ETALCO	H. TECH	OILCO	FOODCO	BUILDCO	M*ETALCO	H. TECH
1. High Power Distance	• Hierarchical compensation strategy	Y	Y	Y	Y	**	Y	P	N	N	N	Y	N	N	N	N
	• Pay and benefits tied to place in structure	Y	Y	Y	Y	-	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
	• Large salary gaps between lowest and highest paid	Y	Y	Y	u/k	-	Y	u/k	u/k	u/k	u/k	Y	u/k	u/k	u/k	u/k
2. Low Individualism	• Group compensation plans	Y	Y	Y	Y	-	Y	Y	Y	Y	P	Y	Y	N	Y	N
	• Seniority - based pay	Y	Y	Y	Y	-	Y	Y	Y	N	N	N	N	N	N	N
3. Moderately Low Masculinity	• Many family benefits	Y	Y	N	N	-	Y	Y	N	N	N	N	Y	N	N	N
	• Quality of worklife emphasis	Y	Y	N	P	-	Y	Y	N	P	N	Y	Y	N	P	N
	• No gender pay differences	Y	Y	Y	Y	-	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
4. Weak Uncertainty Avoidance	• Emphasis on performance	Y	Y	Y	N	-	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
	• Sharing of risks associated with MNE's success or failure	Y	Y	Y	Y	-	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
	• Competitive salaries to avoid poaching of staff	Y	Y	Y	Y	-	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
	• Decentralised pay policies***	N	N	N	N	-	N	N	N	N	N	N	N	N	N	N
	SUPORTED Y (YES)	11	11	9	7	-	11	9	7	5	5	9	8	5	6	5
	NOT SUPPORTED N (NO)	1	1	3	3	-	1	1	4	5	5	3	3	6	4	6
	UNKNOWN	-	-	-	1	-	-	1	1	1	1	-	1	1	1	1
	PARTLY SUPPORTED (P)	-	-	-	1	-	-	1	-	1	1	-	-	-	1	-

Notes: N = Not Supported Y = Supported P = Partly Supported u/k = Unknown. * Metalco Singapore as at 1993 (the date of its sale) **No operating or industrial employees in this subsidiary ***Interpreted as meaning within the Singaporean subsidiary and not the whole MNE.